Nation's Business®
The Small Business Adviser

Sexual Harassment: Reducing The Risks

The Importance Of Buy/Sell Agreements

New Moves To Curb Federal Regulation

# The Power Of Pooling

*Voluntary purchasing groups for health insurance are proving to be good medicine for small companies.*

MARCH 1995 - $2.50
*Published by U.S. Chamber of Commerce*
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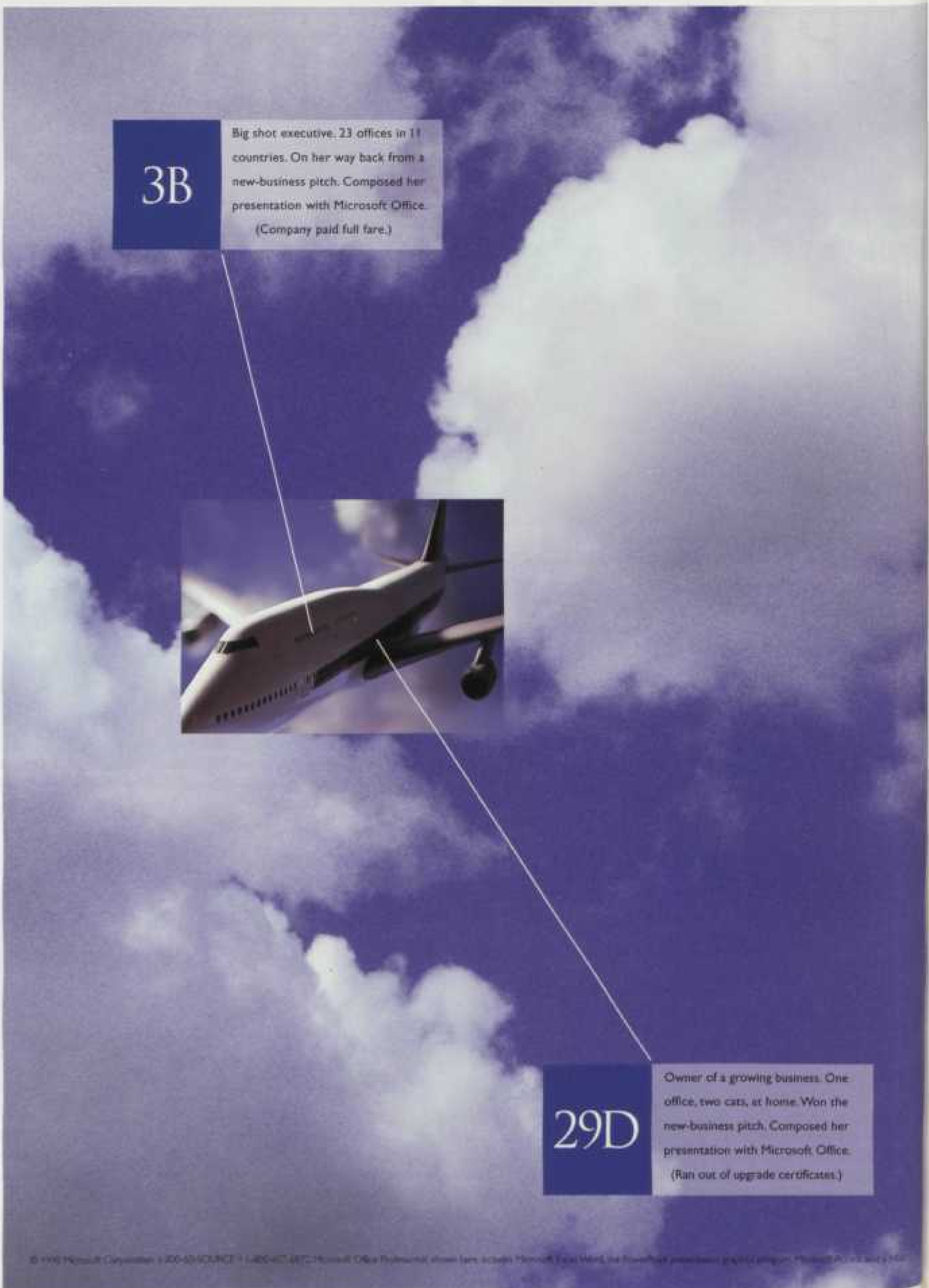
3B
Big shot executive. 23 offices in 11 countries. On her way back from a new-business pitch. Composed her presentation with Microsoft Office.
(Company paid full fare.)
29D
Owner of a growing business. One office, two cats, at home. Won the new-business pitch. Composed her presentation with Microsoft Office.
(Ran out of upgrade certificates.)

**Nation'sBusiness**

*Published by U.S. Chamber of Commerce Washington, D.C.*

PHOTO: ©ROBERT HOLMGREN

**A quiet revolution** *in health insurance—voluntary purchasing groups for small companies—is lowering premiums and expanding choices for business owners such as Edward Regan of Performance Audio in San Francisco. Cover Story, Page 16.*

ILLUSTRATION: GEORGIA LEIGH MCDONALD

**Uncle Sam** *becomes an easier customer for small firms thanks to new procurement rules. Regulation, Page 46.*

VOL. 83, NO. 3

PHOTO: GAL GRILLO—MERCURY PICTURES

**Premium-coffee** *marketer Mark Overly wholesales roasted beans throughout Alaska. Making It, Page 13.*

## DEPARTMENTS



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Cover Photo Image: © PhotoDisc, Inc.

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# Editor's Note

## Progress On Health Coverage

PHOTO: T. MICHAEL KEZA

While it's clear there will be no massive health-care overhaul like the one President Clinton proposed in 1993, Congress is likely to make some market-oriented changes in the health-insurance system this year. But public and private groups are moving ahead on their own, establishing voluntary purchasing pools that are enabling small businesses to buy insurance for their workers at a reasonable cost.

These pools are different in several key ways from earlier health-insurance buying groups, and they are winning praise from small companies that have joined them. Our cover story, written by Associate Editor Roberta Maynard and beginning on Page 16, explains why. (In the photo, Maynard and Deputy Editor Roger Thompson, who wrote an article accompanying the cover story on the federal legislative outlook for health reform, discuss developments nationwide.)

The art of managing a workplace is changing fast. And experts say the pace of change will quicken. What can managers do to stay ahead of the curve? See the latest in our Enterprise 2000 series of articles, on Page 27.

ILLUSTRATION: MICHAEL HILL

Also, note the list of honorees nationwide in this year's Blue Chip Enterprise Initiative, beginning on Page 30. The program, sponsored by Connecticut Mutual Life Insurance Co., *Nation's Business*, and the U.S. Chamber of Commerce, recognizes small companies that have overcome adversity and emerged stronger. Next month, we'll profile the four national honorees.

Have a business problem you'd like to see *Nation's Business* address? Send us a note, and we'll consider doing an article that offers possible solutions. Write to: Editor, Business Problems, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; or fax your suggestion to us at (202) 887-3437.

Mary Y. McElveen

Mary Y. McElveen
Editor

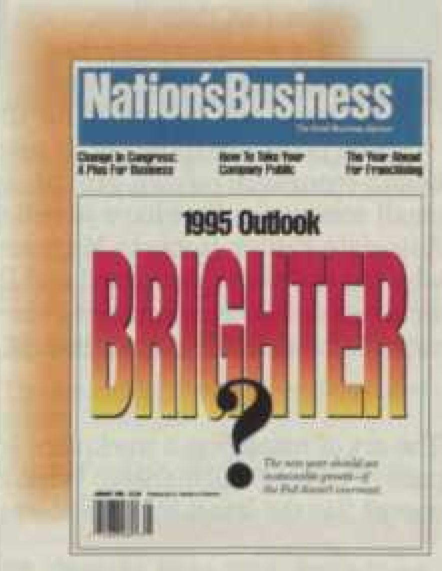
# Letters

## Labor Statistics Fail To Track Economic Decline

I would like to take issue with the following Labor Department data cited in your January cover story [A Brighter New Year?]:

■ The unemployment rate doesn't take into account the underemployed or the discouraged. If it did, the figure would be in the midteens range.

■ The estimate of 3 million jobs created in 1994 was probably correct, but how many of those jobs were in the service sector instead of manufacturing? In general, jobs in the service sector pay less than jobs in the manufacturing sector.




The next generation of Americans will face an ever-decreasing job base with inadequate wages being paid.
*Ronald D. Gaillardetz, CEO*
*Gaillardetz Employment Agency*
*Keene, N.H.*

## LLC Statute Rules Out Useful Tax-Planning Tool

In the Dateline: Washington item on the legal aspects surrounding a limited liability company (LLC) ["The Latest On LLCs: Uniform Law Advances," November], you noted the ease of withdrawal from the company that a member of an at-will LLC would enjoy under the uniform statute that is being considered by most states as they adopt LLC legislation.

Unfortunately, such ease of withdrawal precludes the use of discounted valuation, a highly advantageous tax-planning tool for business owners. Tax planners throughout the country are generally disappointed in LLCs for this reason.

In general, the committee responsible for drafting the uniform statute was made up of corporate lawyers, not tax and estate-planning lawyers. It is hoped that amendments to the various state statutes will come along in the near future.
*James O. Roberts, President*
*Management Planning, Inc.*
*Princeton, N.J.*

## Assess GOP's Contract Issue By Issue

I was completing the reader response card for the January Where I Stand poll on the Contract With America when I realized that it was impossible to answer largely because of multiple issues. For example, I can support some proposals of the Family Reinforcement Act but would oppose others. That is the problem in determining what the Republican mandate is. Some of the proposals the majority may agree with, while others the majority may disagree with. But if it is all wrapped up into one big ball, there is no opportunity to discuss individual issues.
*Martin D. Brown,*
*Attorney At Law*
*Littleton, Colo.*

*[Editor's Note: For the results of the January Where I Stand poll on the House Republicans' Contract With America, see Page 69.]*

## Metric System's Simplicity A Boon To Consumers

I was disappointed in the overall negative attitude of the November article titled "Sizing Up Metric Labeling Rules." Nowhere did you mention that ultimately the consumer will benefit from the simplicity of rational metric-sized packages. The U.S. can no longer afford to remain the only nation not to use the modern, efficient International System of Units.
*Louis F. Sokol, President Emeritus*
*U.S. Metric Association, Inc.*
*Boulder, Colo.*

## Why Disney Park Plan Attracted Opposition

In his December letter, Mason Gardner said that a "small, rich, powerful clique" killed the proposed Disney park in Manassas, Va.

We proudly supported the movement to stop the Disney park but were only a part of the opposition, and we are certainly not rich. Many concerned Americans voiced their outrage at the idea of sacrificing a truly historic area to the commercialism of yet another theme park. We have lived

in both California and Florida and have seen the traffic, pollution, crime, and destruction of land. The millions of people and their cars cannot *not* have long-term effects on the environment. Our historic places are our legacy, yet we ourselves destroy it almost casually.

We do not consider the effort to save what is left of the beauty of this land as "heavy-handed tactics." If people do not care enough to try to protect fragile (and rapidly disappearing) historic and unspoiled land, we and coming generations will only be able to see it in photographs, because it will all be gone, forever.

*John and Evan Degenfelder, Owners*
*AIM Manufacturing Co.*
*Corvallis, Ore.*

## Other Factors To Consider In Opening Another Location

In addition to what was mentioned in "Growing Pains" [Direct Line, December], here are other important factors to consider in opening another location:

■ Will existing systems, such as accounting and management information, inventory control, and human resources, support another location?

■ Do any current employees have what it takes to manage the new location (or the old one if the owner is absent)?

■ What internal controls are needed to protect cash, inventory, and other assets?

■ How will quality of customer service be maintained?

Many business owners find that adding locations adds significantly to the complexity of managing the enterprise. This complexity increases geometrically, not arithmetically. A comprehensive business plan can help an entrepreneur address *all* of the important factors.

*Dominic A. Cingoranelli Jr., CPA, CMC*
*Grimsley, White & Co.*
*Pueblo, Colo.*

*[Editor's Note: For more on the subject, see "Branching Out," November 1994.]*

## Illegal Immigrants Rightly Discriminated Against

I must respond to a December letter, "Results Of Survey Reflect Discrimination," which faulted the opinions reflected in the August 1994 Where I Stand poll on illegal immigration. Discrimination does not necessarily connote prejudice; it is also defined as the ability to make fine distinctions. There is a fine distinction between people who are in this country legally and those who are here illegally. It is beside the point that illegals may pay taxes. They are no more entitled to benefits flowing from their illegal actions than any other lawbreaker.

*Graham O'Neal*
*West Plains, Mo.*

## Let Losing Attorney Pay Tort Legal Fees

Re your coverage and readers' comments on product-liability litigation: In many states and in the federal system, civil cases undergo a mediation procedure that

subjects a party who rejects the mediator's settlement to sanctions.

These sanctions have not resulted in any noticeable reduction in new civil-damages cases, and federal legislation holding the losing party liable for the other side's legal fees would not have any greater impact because 99 percent of all civil cases (product-liability cases included) are settled before verdict. When a case is settled, there is no loser and thus no threat to pay the other side's legal fees.

Also, in contingency-fee cases, all too often the plaintiff lacks the resources to pay such a sanction and can file for bankruptcy. As a result, such sanctions are often perceived as illusory.

But legislation that would require the losing party's *attorney* to pay the other side's actual legal costs may have the desired effect. An attorney could be forced to pay as a condition of maintaining his or her license to practice law.

When the nation had only one lawyer for every 1,000 or so citizens, lawyers had a natural incentive to screen out marginal cases. Now that the ratio is down to about 150 citizens per lawyer, the marginal cases help fill up a young lawyer's time.

Until the system is somehow changed to force lawyers to screen out marginal cases, the litigation assault on American business will continue on all fronts.

*Bruce H. Yuille, CEO*
*Former Practicing Attorney*
*Coast To Coast Telecommunications*
*Clarkston, Mich.*

*Send letters to Editor,* Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000, and include your phone number. You may fax your letter to (202) 887-3437. Because of space limitations, we cannot print all letters received, and those selected for publication may be condensed.*

Entrepreneur's Notebook

# Let The Customer Be Your Guide

By David Steitz

I can tell you exactly when I started listening—I mean really listening—to my customers, although I didn't know at the time that doing so would become a primary strategy for my Houston-based company, Characters, Inc.

In 1985, our business was rooted in typesetting, based on expensive customized equipment, and tied to advertising agencies, graphic designers, and corporations. Compaq, an emerging computer company at the time, was one of our biggest customers. One day, the Compaq folks called to say that they planned to start using a desktop-publishing package; they wanted to know how we could help them use it more effectively. With a lump in my throat, I said I'd find out about the software and see what we could do to support them.

What we discovered was that there were such things as client support and training as well as color separation and other prepress work that would keep our revenues from Compaq steady and growing, even after it stopped using our typesetting services.

It turned out that the request from Compaq vaulted us into desktop publishing and client support, a business that was soon burgeoning while the typesetting industry was beginning to wane. That call, which at first suggested disaster, actually put us on the cutting edge of a new field.

All of this made us realize how important it is for entrepreneurs to rely on clients as a resource, rather than solely as a sales outlet. Knowing customer needs and wants—actively pursuing customer input—helps a company not only win new business but also make significant decisions regarding technology purchases, training, and overall direction.

PHOTO: PAUL S. HOWELL—GAMMA LIAISON

**Prepress company owner** *David Steitz takes his cue from his clients.*

In all honesty, we had no formal approach to seeking and analyzing customer input until recently. Instead, we relied on the strong relationships between our salespeople and clients, something that is still crucial. The information that the salespeople brought back on what our clients were doing or planning helped Characters and its subsidiaries grow to employ 95 associates and to have more than $7 million in annual sales.

Lately, however, to complement efforts from our sales staff, we have sought to gain customer input in more direct and systematic ways. Here is how we have done that:

**Monthly Focus Groups.** Our services appeal to sophisticated customers; frequently, they have more specialized equipment and technology in a particular area than we do. By meeting with current and potential customers, we learn about their plans for new systems and current technology. Knowing our customers' plans gives us the foresight to develop the services and expertise they need.

**Customer Feedback.** Twice a year, customers are surveyed about the desktop-publishing technology that they use now or plan to use in the next six to 12 months. Receiving the information in written form helps our company anticipate the level of technical support that the clients expect us to provide.

**A Blind Survey.** Recently, we polled existing customers to determine if Characters should enter digital short-run color printing, which is expected to be a $15 billion to $25 billion industry by the year 2000. We needed to determine the market potential in Houston before investing nearly $2 million in this new venture. The customers who were questioned didn't know that we sponsored the survey. The results helped us decide that the time was right to start a sister company, Characters/Color Digital Imaging, Inc. (CDI), among the first companies in the country to offer this printing technology. Fittingly, one of our customers came up with CDI's slogan: "Color printing on a black and white budget."

Attention to the customers has pointed us in other new directions. At the suggestion of advertising firms that used our services, we approached their clients about services the advertising firms weren't providing, such as catalogs, sales sheets, presentation graphics, newsletters, and technical manuals.

It was just another example of how we focus not on frivolous new technologies but on what ultimately drives a successful company: the customer. NB

## What I Learned

***The clients can be more than a source of business; they can also be instrumental in helping determine a company's future.***

*David Steitz is chief executive officer of Houston-based Characters, Inc. He prepared this account with Contributing Editor Susan Biddle Jaffe.*

*Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to:* Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

# Our customer base

**Measurably better.** *With Dodge Ram Van, you get to select among three body lengths. Not only that, Ram Van's maximum payload is greater than Ford, Chevy or GMC.*

**More hard-working power.** *Dodge has, overall, the most powerful line of truck engines on the planet. So it's no surprise, Ram Van's 3.9L Magnum V-6 gives you more standard horsepower than any other van. What's more, two Magnum V-8s are available – a 5.2L and a 5.9L.*

V8 MAGNUM

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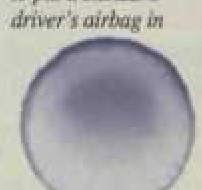

*every single truck it builds.† So of course, Dodge Ram Van comes with one.*

**Standard rear anti-lock brakes.** *To help you get to work safely, Ram Van is equipped with standard rear-wheel or available four-wheel anti-lock brakes.*

**We stand behind our work.** *Ram Van is backed by our new Customer One Care™ 3-year or 36,000-mile bumper-to-bumper warranty and 3/36 Roadside Assistance. There's a 7-year/100,000-mile outer body rust-through warranty, too.**

**Solid value.** *Your Dodge dealer offers a Ram Van Tradesman Package that includes many of the options you look for in a work van. For the name of your nearest dealer, or for information on commercial buyer incentives, call 1-800-WORK RAM.*


†Always wear your seat belt for a fully effective airbag. *See limited warranties and restrictions at your dealer. Excludes normal maintenance & wear items.

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# Dateline: Washington

*Business news in brief from the nation's capital.*

LEGISLATION

## Congress Agrees To Comply With 11 Job And Safety Laws

Congress recently took an important step toward living under the same rules it has imposed on business: It approved legislation that requires senators and representatives to comply with 11 employment and workplace-safety laws—some in effect since the 1930s.

The Congressional Accountability Act, signed Jan. 23 by President Clinton, serves as the preface to the House Republicans' 10-provision Contract With America.

The accountability statute, co-sponsored by Sens. Charles E. Grassley, R-Iowa, and Joseph I. Lieberman, D-Conn., creates a congressional Office of Compliance to ensure that the covered laws (see chart at right) are extended by next year to the 36,000 employees on Capitol Hill.

While the act should go a long way toward making lawmakers feel the practical impact of their legislation, the statute has some loopholes.

For example, congressional employees will have to jump through some extra hoops before being eligible to air civil-rights grievances before a hearing board or in court. Unlike private-sector workers, who can immediately file a charge, Capitol Hill employees must first go through a period of counseling and mediation in an effort to resolve their civil-rights complaints informally.

Although private-sector employers can be subject to fines for workplace safety violations, the situation is much less threatening for a publicly funded entity like Congress. Under the legislation, safety inspections of congressional facilities will be conducted by the Office of Compliance, and violations must simply be corrected; no fines or other penalties will be assessed.

But the lawmakers aren't off the hook. Under the new accountability law, all congressional facilities must undergo a safety inspection at least once a year.

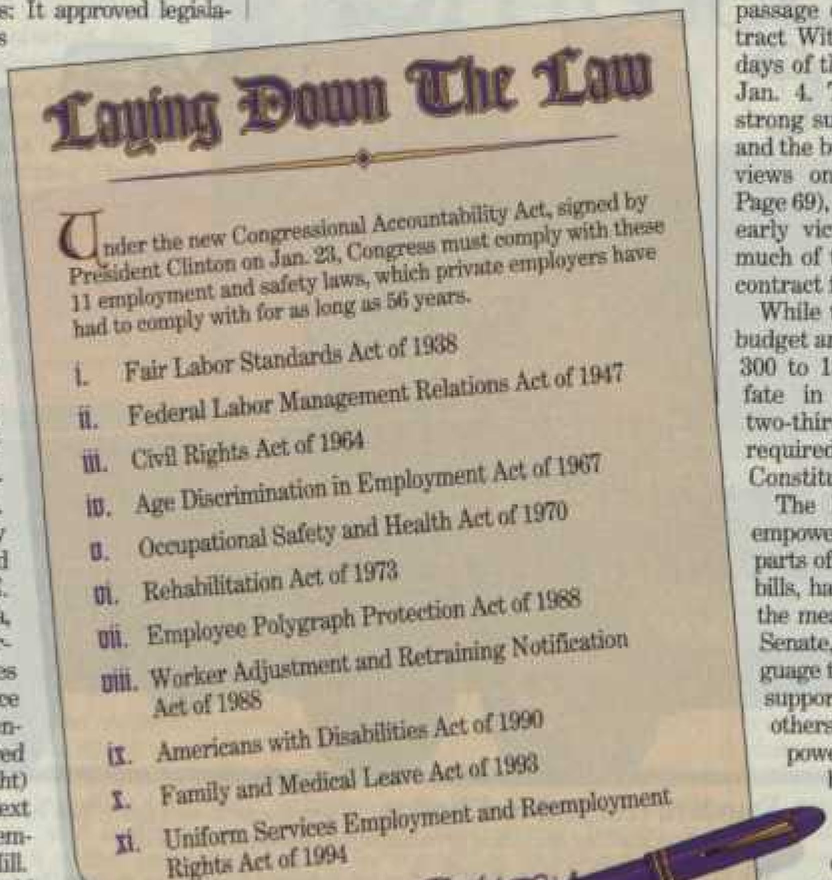


CHART: MICHAEL ROOK

In contrast, the Department of Labor estimates that the Occupational Safety and Health Administration inspects businesses in most industries only once every several years.

In addition, the Office of Compliance will publish statistics detailing the types of congressional violations that have been discovered under all 11 laws; this public disclosure is expected to be a strong agent of accountability.

The Congressional Budget Office has estimated that the accountability law will cost Congress between $4 million and $5 million each year. —*Laura M. Litvan*

## Some GOP Contract Items Face Uncertain Fate

House Speaker Newt Gingrich is expected to have a difficult time gaining passage of all 10 provisions of the Contract With America within the first 100 days of the 104th Congress, which began Jan. 4. The Republican manifesto has strong support within the general public and the business community (see readers' views on the Contract With America, Page 69), and the House GOP has won key early victories on some measures. But much of the legislation to implement the contract faces an uncertain future.

While the House passed the balanced-budget amendment to the Constitution by 300 to 132, for example, the measure's fate in the Senate is less clear. A two-thirds majority vote in each house is required for congressional approval of a Constitutional amendment.

The line-item-veto bill, which would empower the president to rescind all or parts of spending items in appropriations bills, has passed the House, 234-194. But the measure faces a difficult fight in the Senate, where some favor tougher language than the House bill provides, some support a more modest version, and still others oppose ceding any additional power over spending to the executive branch of government.

Legislation to limit Congress' ability to pass unfunded mandates passed the House, 360-74, and the Senate, 86-10. A joint committee began reconciling differences in the bills. When the consensus legislation is enacted, it is expected to deter Congress from imposing costly requirements on state and local governments and the private sector. (See Commentary, Page 70.)

The House has completed work on the crime plank of the Contract. And several other components of the Contract, notably a regulatory-reform proposal, could come before the full House during the next few weeks.

But other items will be much tougher to bring to a vote, especially in the Senate, most of whose members did not campaign on the basis of the Contract With America last fall. Even the optimistic Gingrich recently noted, "I think term limits is going to be very tough to pass, and I think litigation reform is just going to be a brawl." —*Albert G. Holzinger*


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# Managing Your Small Business

*Selling the sales staff on a concept; communicating with the customer; coping with a reorganization.*

*By Roberta Maynard*

SALES FORCE

## Dealing With Resistance To A New Product

What do you do when you have a great new product but some of your own salespeople are resisting the idea? It was a problem that Rolfs Leather faced after it decided the time was right to introduce a line of men's handbags.

The marketing team at the West Bend, Wis., company concluded that men need a better way to carry such items as cellular phones, pagers, and other electronic devices, as well as wallet, keys, and comb. Noting that a number of men wear inexpensive fanny packs, the marketers saw an opportunity to offer quality leather products especially designed to carry personal items.

Men's handbags have long been popular in other countries, but Eric Lund, senior vice president, knew that American men hadn't taken to them. He was concerned that if his salespeople were also uncomfortable with the concept, they would ignore the product and sales would suffer.

He asked each of his 45 salesmen to carry one of the bags for two weeks. His 11 or so saleswomen were asked to enlist the help of their husbands or boyfriends. Lund himself carried two versions of the bag during the test.

The exercise made a few converts and also confirmed that some of the men would never be comfortable with carrying their personal items in a handbag—even though it could be worn on a belt.

Reactions ranged from comments like "more useful than I expected; I could keep all my stuff in one spot" to "this is too radical for most males."

But Lund says the test also accomplished an important goal: "It let everyone know we were serious about selling this product. And even if it wasn't their thing, it got them talking and thinking about how the product could be helpful, how it could be used, and how it could be sold."

The test also resulted in suggestions from several salespeople about how to improve the product and how to maximize markets. ■

PHOTO: BRUCE BUCHANAN

**It's in the bag:** *Eric Lund, senior vice president of Rolfs Leather, shows one of the business tools that his handbag for men was designed to hold.*

INSURANCE

## Voluntary Deductions Lure Employees

With the economy improving and jobs getting harder to fill, how can small, cash-strapped firms compete to attract workers? One lure that costs the employer almost nothing is voluntary payroll deductions for life insurance.

Here's how it works: After talking with employees and receiving their consent, an employer signs up with an insurer, agreeing to deduct from paychecks the premiums for various kinds of life coverage, such as whole-life or level-term.

The program covers only those employees who want to buy insurance. Coverage is usually \$50,000 or less, depending chiefly on age. Under a typical plan, for about \$43 a month, a healthy 28-year-old can buy about \$38,000 worth of whole-life coverage, which builds cash value. Because dealing with employee groups leads to some savings in a carrier's administrative costs, premiums are slightly less than they would be if employees bought the same coverage on their own.

If employees change jobs, the coverage travels with them, with premiums paid either directly by the employee or by the new employer—if the employer has agreed to do so.

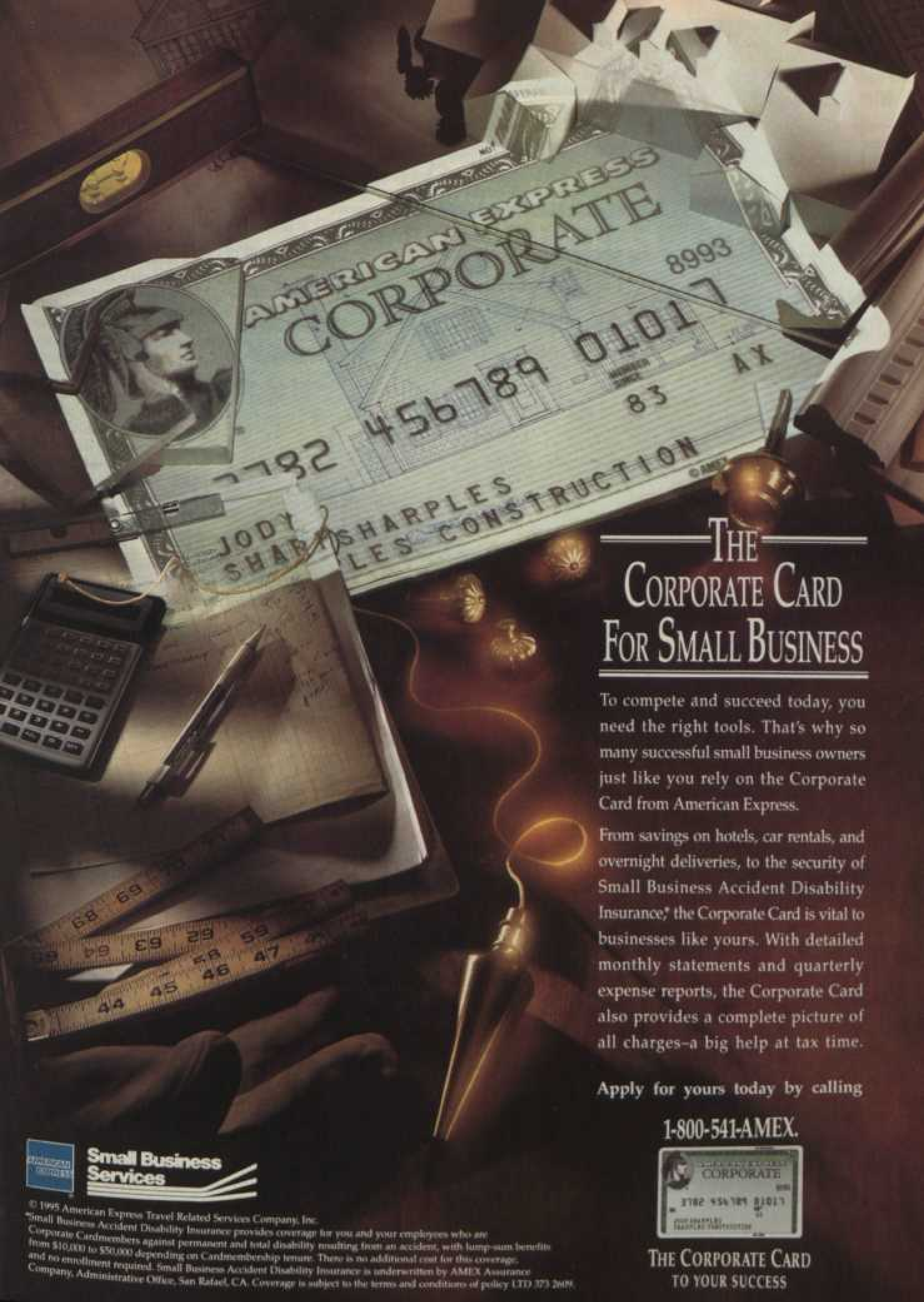
Madeline Fields, manager of the Barrington Health Care Center for Women, located near Chicago, is testing the concept. Five of her 15 employees have signed up for life policies. For those five, Fields sends off a premium check monthly to the insurer for \$95.35.

In a recent survey of 1,300 companies, Life Insurance Marketing Research Associates (LIMRA) of Windsor, Conn., found that 30 percent of them offered voluntary-deduction policies. About 150 insurers write such policies, up from 35 a decade ago, according to LIMRA.

Among the better-known providers are MetLife, Mutual of New York, and New York Life, all of New York City, and American Family Life Assurance Co. (AFLAC), in Columbus, Ga.

New York Life alone has seen 300,000 companies sign up for its voluntary-deduction policies in two years, with premium income jumping from about \$17 million in 1992 to nearly \$95 million last year. For more information, call Dorothy Murray at LIMRA at (203) 285-7810.

—*John S. DeMott*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COMMUNICATION

## Finding Ways To Talk With Customers

Success in any business depends on good communication with customers. At Frieda's, Inc., a Los Angeles marketer and distributor of specialty produce, it's an integral part of doing business.

Here are some of the managing and marketing practices followed by Karen Caplan, the company president, whose mother, Frieda, founded the business 30 years ago:

■ Fact sheets keep distributors informed about the company's 400 products, telling how best to store produce to keep it fresh and providing information on where and when the produce was grown so distributors can be prepared to answer questions from their customers.

■ A weekly one-page hot sheet mailed to merchandisers and buyers provides information on seven or so new items, including how they are packaged and when they are available. A tip like this can help buyers plan ahead: "We are flying in shallots daily, so the price may be a bit higher now. We'll receive our first boat shipment after Labor Day." The mailing is printed in purple, as are the company's product labels.

■ Most written material from Frieda's invites comments and suggestions. In the past 22 years, Frieda's has received 270,000 letters; these are sometimes used as selling opportunities. When Caplan receives a letter from a customer saying a certain Frieda's product is not available in local stores, the letter is passed along to the stores, which often persuades them to carry the product.

■ All correspondence is answered within three to five days of receipt, and Caplan herself often replies with hand-written notes.

■ Frieda's purple product labels are packed with information for consumers, including how to prepare the product, where it comes from, how it is used, and where to write for recipes.

This constant attention to communication has worked well for Frieda's, which has annual sales of $23 million.

Says Caplan: "We take every customer request seriously. By using these tools of communication, we have established ourselves as experts in exotic fruits and vegetables."


PHOTO: GBART BARTHOLOMEW

**In close touch:** *Frieda Caplan, left, founder of Frieda's, Inc., a produce distributor, and daughters Jackie, center, and Karen, company president, work to keep the lines of communication wide open.*

WORK FORCE

## Keeping Employees Focused During A Reorganization

Because the long-term success of a company reorganization depends on the ability of employees to adapt to change, it's important to help them with the transition. After a reorganization, it's not unusual for employees to respond with denial, anger, anxiety, and withdrawal.

Here are some tips that managers can use to help their employees move from these feelings toward goal formation, comfort, and optimism:

■ Recognize where employees are in the transition. For most, it will take time to feel positive about what has occurred.

■ Acknowledge employees' feelings without encouraging negative comments or being judgmental.

■ Provide structure to redirect employees' attention to the tasks at hand. Involve them in meaningful work on specific projects and assignments. During this period, try to keep risks relatively small, and try not to take employees too far out of their comfort zones.

■ For employees who are denying that changes have occurred in operations or are still reminiscing about the old structure, point to positives such as a new automated phone system or expedited billing procedures.

■ Continue to provide focus and build confidence. Team-building activities, small celebrations for team accomplishments, and participation on committees are helpful in establishing connections within the new context. The more employees are involved with others who are actively participating in the new organization, the more attractive the future becomes to them.

Eventually, most workers progress to the next phase and accept that they must go on. It is only after a critical number of employees make the transition to the new organization that the entire company is revitalized.

These suggestions were taken from a book for managers, *Making a Reorganization Work for You and Your Team*, from the Marshall Group, Inc., a consulting firm in Scottsdale, Ariz. Copies of the 44-page book are available for $19.95; to order, call (602) 991-6103.

NB TIP

## A Quality Gathering

Quality for small business is the theme of a conference to be held April 10 and 11 at the Chicago O'Hare Marriott.

The sponsors of the conference are the American Society for Quality Control, the U.S. Chamber of Commerce, and *Nation's Business*.

The conference's speakers—many of them small-business people themselves—will use the criteria for the Malcolm Baldrige National Quality Award as a framework, showing how they can be applied to make small firms more efficient, customer-focused, and profitable.

The registration fee for the conference is $595. To register, or for additional information, call 1-800-248-1946 or (414) 272-8575.

NB

LAVE1

# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*

## Cold Climate, Hot Coffee

*By Michael Barrier*

Mark A. Overly relishes the beverages he sells. "It's light-bodied and has a wonderful smoothness," he says of one, "with a sort of buttery, black feel to it. The aromatics linger in your nasal cavities."

He sounds for all the world like a winemaker; close your eyes, and you can picture him pouring a glass of ruby liquid. The aroma tells a different story, though. When you open your eyes, you find yourself not at a winery, but standing beside a technologically sophisticated coffee roaster in the back room of a gourmet coffee house in Anchorage, Alaska.

Overly, 30, is the proprietor of Midnight Moon, Inc., which does business as Kaladi Brothers Coffee Co. (Kaladi was an Ethiopian goatherd who according to tradition discovered coffee.) He sells espresso drinks—lattes, cafe mocha, cappuccino, and the rest—and premium brewed coffees at three retail outlets, but his main business is wholesaling roasted beans to espresso bars and coffee houses throughout most of Alaska.

That might appear to be a small and even unlikely market, but Kaladi Brothers' revenues in 1994 were more than $3 million. The company now has more than 50 employees. Overly targets coffee houses—which he calls "independent coffee users"—"because they have got to rely on the product quality itself for their business."

Kaladi Brothers sells coffee beans by mail order, and by the pound at Overly's three coffee houses, but, to protect its reputation, it doesn't sell through grocery stores under its own name. "Coffee is extremely perishable," Overly says. "It only has a life of about two weeks" unless it's frozen, air-tight, a stipulation he imposes on his coffee-house accounts.

Overly was born and raised in Jacksonville, Fla. He first saw Alaska just after he graduated from high school, when he and his parents drove there to visit his brother, who was in the Air Force, and he decided to stay.

He bused tables at first and sold cars. Then he met one of the owners of an Anchorage gourmet coffee business that was attempting to wholesale to restaurants, without much success. The owners offered to sell the company to Overly for "very little," he says, and he seized the opportunity.

To learn about espresso, he worked briefly for a Seattle machine dealer. That company had figured out the kinds of

**Alaska coffee-roaster** *Mark Overly enjoys a cup near the Chugach Mountains with wolf-husky Sitka.*

espresso drinks that would be most appealing to Americans: lattes, for example, and other espresso-flavored milk drinks, as opposed to straight espresso, with its strong, bitter flavor.

Overly then learned coffee-roasting technology, and, he says, "I realized that I could take the best of roasting technology, and the best of espresso dynamics, and marry the two, and create a coffee-roasting company that, from the start, was roasting for espresso. There's no shortage of gourmet coffee companies, but most of them think in terms of American gourmet coffee—and espresso is a very different beverage."

What he wanted to do, Overly says, "is make an espresso beverage that would stand up in the milk, so that when you added 10 ounces of milk to it, the beverage still overwhelmingly tasted and smelled like coffee, and had great depth."

To come up with such formidable espresso, Overly buys his beans through Holland, a country known for its superb coffee; the beans themselves come from about a dozen different countries. Espresso now accounts for 90 percent of the drink sales at Overly's retail outlets, and for 75 percent of the beans he roasts.

"Most people in the coffee business are in it for the romance of coffee," Overly says. "It's a business of passion, but we all go about it in different ways. I came at it from the mad-scientist angle: What are the elements I'm looking for in the product, and how do you brew it?"

He has approached his company itself with the same cool eye. "This was not a dream I created," he says. "This was something I bought, and then looked at its strengths and weaknesses and how best to run it." He could build the company faster, Overly acknowledges, if he opened up a lot of retail stores under the Kaladi name. "This is a longer road," he says, "but I'm only 30 years old. I've got plenty of time."

# A Firm With Lots Of Drive

*By Michael Barrier*

"We've been market-driven," says B. Alan Melton. "That's how our company has grown, by trying to find out what the market wants."

So successful has the company, East Coast Transportation, been at heeding the market's wishes that 1994 revenues were about $2.6 million. The Neptune Beach, Fla.-based company, which provides luxury transportation, employs about 70, including 50 full- and part-time drivers. It has about 30 vehicles now, from luxury vans and sedans to stretch limousines and minibuses.

Back in 1983, Melton and C. Gregory Franks were working for a car-rental agency in Orlando, Fla.—Melton as manager, Franks as sales representative. As they talked one afternoon, they realized that they both wanted to go into business for themselves. They decided to pool their resources.

At the time, Melton recalls, only one national car-rental company had an agency in the Florida beach towns just east of Jacksonville—and it was renting cars for much higher rates than anyone in the highly competitive Orlando market. "We realized that we could come here and compete and still maintain profits," Melton says.

They started with just five cars, and "when we rented all the cars out," Melton says, "there was really nothing left to do." But they knew that the handful of resorts in the Jacksonville area had guests arriving at the airport, "and we started to brainstorm on how we could capture some of that airport business," Melton says.

They hit on the idea of having a driver pick up customers at the airport, handle their luggage, and take them to their hotel, where a rental car would be waiting.

"Soon," Melton says, "we found out that people liked our service, and they asked if we could provide it without renting a car."

**Checking out** *one of East Coast's luxury limos are Greg Franks, left, president, and Alan Melton, chairman.*

From providing transportation for individuals, East Coast began providing group transportation, "as we determined what a resort's needs might be," he says.

East Coast got out of the car-rental business in 1991, after peaking with 115 cars two years before, because its margins were shrinking too much in an increasingly competitive market. Now, Melton says, "we're trying to diversify our customer base," so that East Coast is not so dependent on its resort accounts. The company is cultivating relationships with Jacksonville corporations, whose executives may already ride to meetings at the resorts in East Coast's vans.

Sometime this year, Melton says, "we expect that East Coast Transportation will be run by the employees. That will enable us to start branching out into other markets," offering comparable transportation services in other cities.

As they expand, Melton, 37, and Franks, 42, will continue to rely on a sort of silent partner. In the mid-'80s, Melton says, "we dedicated our business to Christ. We had not been profitable to that point, and the very next quarter after we committed our business," and agreed to tithe from the company's profits, "we became profitable."

Franks adds: "We've worked hard, and we've got a good staff and a good service, but we believe that the dominant influence is the Lord's blessing and hand on our business."

Melton has found in the precepts of Total Quality Management a direct link between his religious beliefs and the demands of running a business. In recent years, he says, he has read the writings of the late W. Edwards Deming, the seminal thinker on quality, and has tried to implement Deming's ideas at East Coast. "I'm not sure Deming knew it," Melton says, "but I think his concepts were initially pioneered by Jesus Christ."

Deming's ideas, Melton says, are about eliminating fear and setting people free—"and that's what Christ did." NB

COVER STORY

# The Power Of Pooling

*By Roberta Maynard*

While Congress talked health-care reform to death last year, Edward Regan became part of a quiet revolution that is changing the way small companies and their workers buy health insurance. Regan, president of Performance Audio in San Francisco, joined a purchasing pool and immediately cut his company's monthly insurance costs 42 percent without sacrificing the quality of coverage.

"For me it was fantastic," says Regan, who was preparing to increase his deductible to $5,000 from $1,000 to keep premiums down for himself and his eight workers. "Right off the bat, the premiums dropped, and at renewal they dropped another 6 percent. I'm paying $1,100 a month," just over half of what he was paying before. And the new health plan, an HMO (health-maintenance organization), has no deductible, only a $15 copayment for each office visit.

Regan is one of more than 4,300 small-business owners in California who have voluntarily signed up with the state-sponsored Health Insurance Plan of California since it opened for business in July 1993. The HIPC (pronounced hippic) is a pioneering effort to make health insurance more affordable by giving small firms the kind of group purchasing power long enjoyed by large companies. The immediate savings reaped by Regan were higher than those of most companies that have joined the HIPC, but savings by most firms have been substantial.

The California HIPC offers coverage to all companies with four to 50 workers; the average size so far is 10 employees. In addition to lower costs, the HIPC provides a range of health-plan choices. Statewide, 23 insurers offer a variety of standardized HMOs and PPOs (preferred-provider organizations). Employees, not employers, choose the plan best-suited to their needs and pocketbooks.

While California was the first state to establish a voluntary purchasing pool, or alliance, for private employers, 15 others have either started alliances or changed laws that would have prohibited them. (See the chart on Page 17.) Private alliances, typically run by business groups, are permitted in most other states, according to the Institute for Health Policy Solutions, a nonprofit group in Washington, D.C.

The idea of purchasing pools for small firms is not new. For years, trade associations, labor unions, and business groups have offered health plans to their members through pooling arrangements called multiple-employer trusts (METs) and multiple-employer welfare arrangements (MEWAs).

Like METs and MEWAs, the new pooling arrangements are meant to give their members collective leverage in the marketplace to get lower prices. There the similarity ends.

Unlike METs and MEWAs, the new alliances accept all small companies, offer a variety of plans from multiple insurers, and require standardized benefits that allow employees to make clear price comparisons. The consumer-friendly approach to the new alliances prompted one analyst to call them "Price Clubs" for health insurance.

Despite their shared goal of cost cut-

PHOTO: ROBERT HOLMGREN

**Premium costs dropped** *by nearly half for Performance Audio when the San Francisco firm signed up with California's purchasing alliance, says Edward Regan, president.*

*Voluntary purchasing groups are delivering lower health-insurance rates and greater choice for small businesses. You, too, might benefit from this growing trend.*

ting through group purchasing power, alliances differ greatly:

**Governance:** Some are overseen by state agencies, some by private business groups.

**Boundaries:** Some are regional, others are statewide.

**Competition:** Some have exclusive territories, and some compete with other alliances.

**Prices:** Some negotiate rates with insurers, others allow insurers to set their own rates.

**Choice:** Some allow employees to pick from a menu of health plans, others let employers select which plans will be available to employees.

Here's how these differences play out in several states:

### California

The California plan offers an example of maximum state control. The HIPC is administered by an independent state agency that defines the standard benefits offered and negotiates prices with insurers.

For the purposes of setting rates and servicing plans, the HIPC divides the state into six regions. Participating employers must contribute at least 50 percent of the cost of the lowest monthly employee-only plan available; they may buy through an insurance agent for a fixed commission or directly through the HIPC.

Employees may choose any health plan offered in their region. More than 80,000 workers and dependents are currently covered statewide.

### Florida

Lawmakers opted for less state control. Legislation passed in 1993 established 11 exclusive regional alliances loosely overseen by the state's Agency for Health Care Administration, but each alliance is administered by a board in its region.

The state's insurance department defines the basic and standard health plans that insurers offer within the 11 regions, called Community Health Purchasing Alliances. Any employer with one to 50 workers may purchase insurance through these groups.

Employers choose which plans to make available to employees. The alliances do not negotiate price with insurers. Employers must purchase plans through insurance agents, whose commissions may vary depending on the plan chosen.

The Florida alliances opened for business in June 1994. On Jan. 1, statewide enrollment was nearly 5,000 businesses—with 22,300 people covered.

### Iowa

Iowa took a different approach by simply setting up the regulatory framework to facilitate the formation of private, nonprofit alliances that may have overlapping territories.

The Independent Insurance Agents of Iowa took the lead and launched the Des Moines-based Independent Health Alliance of Iowa last July. The alliance, which provides insurance to individuals and companies of any size, offers a minimum of three insurers and four health-plan designs throughout the state.

The state established two standard health plans that all insurers must offer within alliances. Employers are required to pay for only 25 percent of the lowest-cost health plan. On Jan. 1, the alliance had 440 participating employers and covered 3,300 people.

The state will soon have a second alliance, started by the Health Policy Corporation of Iowa, which has served self-insured firms since 1982. The corporation's president, Paul Pietzsch, has announced plans to start an alliance for small companies by midyear.

### Texas

A 1993 law set up an alliance that covers the state through seven regions. The alliance is private but is administered by a

## The Push Toward Purchasing Groups

States that have passed legislation forming or encouraging purchasing groups.

States that have amended existing laws to permit purchasing groups. (Most other states allow private purchasing groups.)

SOURCE: INSTITUTE FOR HEALTH POLICY SOLUTIONS

board appointed by the governor. The same law also laid the groundwork for formation of other private purchasing groups.

Alliances will serve companies with three to 50 workers and will require participating insurers to offer small employers three health plans defined by state law. The statewide alliance began enrolling companies Jan. 1.

**New York**

In New York, private, business-sponsored alliances are springing up even though the legislature has taken no action to create a state-supported alliance structure.

The Long Island Association has just begun the LIA Health Alliance, available to businesses with three to 50 employees. When enrollment began last December, approximately 3,500 companies were ready to sign up. Firms have the option of buying through insurance agents.

A private alliance in nearby White Plains will soon be operating in Westchester, Rockland, and Putnam counties. The alliance, called the W/R/P-HPPA Ltd., is sponsored by three business organizations and will provide coverage to companies of one or more employees. Insurance agents have the exclusive right to sell health plans through the alliance.

Clearly, business groups and states are doing voluntarily what President Clinton's defunct health-reform plan tried to mandate: Move small businesses into purchasing groups.

What accounts for the sudden popularity of alliances? The idea entered the national health-reform debate during the 1992 presidential campaign. President Bush and candidate Clinton both embraced the idea of managed competition, an approach that relies on the marketplace to drive down costs and improve quality of care. The key to making this happen is the health-insurance purchasing alliance.

Within an alliance, insurers would be forced to compete on the basis of price and quality. Insurers would not be permitted to deny or drop coverage for individuals or groups with costly medical conditions.

States in recent years have facilitated the move to managed competition by enacting sweeping insurance-market reforms that force all insurers to play by new competitive rules that reduce or eliminate risk selection.

Lawmakers recognized that, over time, small businesses were unable to benefit from the basic insurance principle of spreading risks over a large group. Insurers had come to evaluate small firms separately by such factors as claims experience, workers' health status, and even type of business.

As a result, many small companies couldn't buy health insurance at any price. Those that did have coverage lived in fear of a single serious illness because it could trigger skyrocketing rates or cancellation of coverage.

To remedy these problems involving access to insurance, states have enacted small-group market reforms that typically apply to companies with two to 50 employees, although a few states include sole proprietors.

Since 1992, most states have enacted reforms that do one or more of the following: protect small companies' ability to purchase health insurance regardless of employees' health status; prohibit insurers from canceling small groups' coverage (except for nonpayment or fraud); guarantee continued health coverage without a waiting period when an employee changes jobs; and limit the ability of insurers to charge different rates for companies of similar size and employee characteristics. (See the chart at left.)

In addition, 10 states have adopted some form of community rating, which bars consideration of health status in setting rates.

These small-group market reforms have laid the groundwork for alliances to test whether restructured competition among insurers would in fact drive down costs while improving quality.

Alliances have other advantages that are highly attractive to state lawmakers. "They are a cheap form of health reform; it costs very little to set one up," says Kevin Haugh, senior policy analyst for the Institute For Health Policy Solutions.

"It also has kind of warm

# How States Are Rewriting Small-Group Market Rules

## Most Adopt New Requirements For Insurers

| | Guaranteed Issue(1) | Guaranteed Renewal(2) | Coverage Portability(3) | Rate Restrictions(4) |
|---|---|---|---|---|
| Alabama | | | | |
| Alaska | Yes | Yes | Yes | Yes |
| Arizona | Yes | Yes | Yes | Yes |
| Arkansas | | Yes | | |
| California | Yes | Yes | Yes | Yes |
| Colorado | Yes | Yes | Yes | Yes |
| Connecticut | Yes | Yes | Yes | Yes |
| Delaware | Yes | Yes | Yes | Yes |
| Florida | Yes | Yes | Yes | Yes |
| Georgia | | | | Yes |
| Hawaii | | | | |
| Idaho | Yes | Yes | Yes | Yes |
| Illinois | | Yes | Yes | Yes |
| Indiana | | Yes | | Yes |
| Iowa | Yes | Yes | Yes | Yes |
| Kansas | Yes | Yes | Yes | Yes |
| Kentucky | Yes | Yes | Yes | Yes |
| Louisiana | Yes | Yes | Yes | Yes |
| Maine | Yes | Yes | Yes | Yes |
| Maryland | Yes | Yes | Yes | Yes |
| Massachusetts | Yes | Yes | Yes | Yes |
| Michigan | | | | |
| Minnesota | Yes | Yes | Yes | Yes |
| Mississippi | Yes | Yes | Yes | Yes |
| Missouri | Yes | Yes | Yes | Yes |
| Montana | Yes | Yes | Yes | Yes |
| Nebraska | Yes | Yes | Yes | Yes |
| Nevada | | | | |
| New Hampshire | Yes | Yes | Yes | Yes |
| New Jersey | Yes | Yes | Yes | Yes |
| New Mexico | Yes | Yes | Yes | Yes |
| New York | Yes | Yes | Yes | Yes |
| North Carolina | Yes | Yes | Yes | Yes |
| North Dakota | Yes | Yes | Yes | Yes |
| Ohio | Yes | Yes | Yes | Yes |
| Oklahoma | Yes | Yes | Yes | Yes |
| Oregon | Yes | Yes | Yes | Yes |
| Pennsylvania | | | | |
| Rhode Island | Yes | Yes | Yes | Yes |
| South Carolina | Yes | Yes | Yes | Yes |
| South Dakota | | Yes | | Yes |

1. Guaranteed Issue: As a condition of doing business, insurers must provide coverage to any small group that applies.
2. Guaranteed Renewal: Insurers may cancel a company's coverage only for cause, such as fraud or nonpayment of premiums.
3. Coverage Portability: Workers changing jobs are not required to fulfill a waiting period before being covered for a pre-existing condition.
4. Rate Restrictions: One of several ways to limit or ban consideration of medical conditions in setting or increasing premiums.

SOURCE: INTERGOVERNMENTAL HEALTH POLICY PROJECT, THE GEORGE WASHINGTON UNIVERSITY

fuzzies associated with it—the idea of people getting together to get a great deal, empowering the consumer, ganging up on the health-care system," Haugh says.

"The notion of plan choice, which didn't exist before, is also appealing," Haugh says. "And in the rapid movement toward managed care where you're taking provider choice away [from individuals], this is a way to give it back to people," by giving them a greater choice of health plans.

Finally, according to Haugh, people feel good about alliances because they are locally based, which enables them to respond to their communities' needs. And they are voluntary, in contrast to the mandated alliances under Clinton's rejected health-reform plan.

The new Long Island alliance estimates that its prices are 5 to 10 percent below the average range for comparable coverage outside the alliance.

In Florida, the regional alliances have cut premiums an average of 8 percent, and the cost of some plans has fallen by 25 percent.

For Helen Lyon of Kissimmee, Fla., lower cost was a welcome bonus for joining the local alliance. Her primary concern was coverage for cancer treatment. The sole proprietor of Lyon Mailing Specialist, she had health insurance through a trade association. But she switched to the Florida alliance after her insurer refused to pay for the eight chemotherapy sessions that she needed at a cost of $800 each.

ers [insurers] have a responsibility to manage care as well as price," McCorvie adds. "It's a changing paradigm for insurance to be based on efficiency and quality."

Quality won't be left to guesswork. To varying degrees, state laws require alliances to gather information about consumer satisfaction, medical outcomes, and other quality data. Some require report cards to assist consumers in making buying decisions.

Many alliances, at a minimum, plan to survey their members for information on provider care and service, such as length of wait for appointments and ease of collecting on claims.

Regular evaluation of doctors, hospitals, and insurers is another way that alliances expect to promote competition.

Built-in quality measures were a major draw for Katherine Heaviside, president of Epoch 5 Marketing, a public-relations firm in Huntington, N.Y. She was among the first small-business owners who called to inquire about the private alliance that has just been started by the Long Island Association. Heaviside views health insurance as an important benefit for her 20 employees and an essential tool in competing with larger companies for the best talent.

"Cost is probably what's going to get everyone's attention, but what interested me is that they will have a report card on providers," says Heaviside. "We don't want to take the chance of inferior quality by just going with the lowest bidder," she says. Heaviside plans to join the Long

PHOTO: ©CHRIS STEWART—BLACK STAR

**Price and choice of plans** *available through an alliance persuaded Clark Griffin, left, owner of Griffin Construction, in Iowa City, Iowa, to offer health insurance to his two employees.*

Of all the advantages ascribed to purchasing alliances, none appeals more to small-business owners than the lower cost of coverage. Alliances are designed to cut costs three ways:

First, they use their collective bargaining power to win cost concessions, a technique applied with great success by big-business purchasers of health care.

Second, they restructure the marketplace through small-group insurance market reforms and standardized health plans, forcing insurers to wage marketing campaigns based on cost and quality.

Third, they achieve economies of scale for administrative functions, substantially cutting overhead costs.

Studies have shown that as much as 30 to 40 cents of every premium dollar paid by small businesses goes to support an insurer's overhead, according to Richard Figueroa, a deputy director with the state agency that oversees California's HIPC. In contrast, the alliance has held overhead costs to between 12 and 18 cents per premium dollar.

Together, streamlined administration and competitive pressures have allowed the HIPC to offer small companies average cost savings of 5 to 15 percent. Savings for many companies, like Edward Regan's, far exceed the average.

Standardized health plans make price shopping simple and easy for members of the California alliance, Regan says. "It's easy to get an insurance quote on a car or house," he adds, "but with health insurance outside the HIPC, it's hard to sort out what are the benefits of different policies. I don't have time for that. I've got a business to run."

Because she had previous coverage, Lyon was not subject to the prescribed one-year waiting period for pre-existing conditions. Her new HMO plan immediately covered her cancer treatment. She now pays a premium of $165 per month, which is $25 less than she had been paying for what she says was an inferior health plan.

While cutting costs, purchasing alliances want to ensure that they deliver high-quality medicine. "You can't ultimately reform health care based on price alone," says Terry McCorvie, executive director of Florida's District 7 alliance in Orlando, which covers one-fourth of the 5,000 employers that have enrolled statewide. "You have to change the focus from risk to competition based on value."

"We think providers and the risk bear-

Island Association alliance as soon as her current policy expires.

New alliances, like the one on Long Island, are not alone in trying to recruit small-business buyers. Groups that have catered to large and medium-sized companies are showing interest in expanding into the small-group market.

Of the 90 large-business health-care coalitions that are members of the National Business Coalition on Health, a trade association based in Washington, D.C., more than a dozen are moving toward establishing new HIPC-type alliances to include small groups or are allowing small businesses into their existing purchasing arrangements.

"It is starting to catch on like prairie fire," says Sean Sullivan, the group's president. This new interest in reaching out to small-business groups is partly the result of a higher level of awareness by coalitions, he says, and partly a realistic look at the future. "We feel we have to make the market work for all of us, and small business is a major part of that market."

In Colorado, for example, a cooperative serving only self-insured firms is assessing the feasibility of contracting with five insurers to sell health plans to groups of all sizes. "We think the time is ripe to do this," says Claire Brockbank, vice president of the Colorado Health Care Purchasing Alliance, in Denver. "To include small business means including another half of the business in this community. But there are many hurdles still to cross."

One major concern is whether the number of small companies signing up in the largely rural state would be enough to create the market efficiencies needed to reduce costs significantly. Insurers set their prices in part on the volume of business they can expect.

Says Brockbank: "The question is, 'Can [the alliance] attract anyone?' The products must be cheaper right out of the block—small business will want [lower] cost."

Later this year, a private Milwaukee group that serves large employers plans to launch a new purchasing group for companies of all sizes. "We were challenged by smaller businesses in the community that said we were cost-shifting to them," says Jim Wrocklage, chief execu-

PHOTO: [illegible] — BLACK STAR

**Sole proprietor** *Helen Lyon joined a Florida alliance that offers her better coverage at a lower premium.*

# Questions To Ask Before Joining A Health-Insurance Pool

**1. Is this alliance public, private, or a combination of the two?**

Public alliances are administered and financially supported by the states. Some alliances have state-appointed boards, but they function as private entities. Others are run by business groups and get no administrative or financial help from the states.

**2. What size companies are eligible to participate?**

Most alliances do not yet accept the self-employed or companies that have only one or two workers. In most states, alliances cover businesses with three to 50 employees.

**3. How many insurance plans are available, and are they standardized?**

Alliances typically offer a menu of health plans from several insurers. Most are managed-care plans, either health-maintenance organizations or preferred-provider organizations. Benefits are the same in each plan, allowing direct cost comparisons among plans.

**4. What is the required employer contribution per employee, and what percentage of the employees must buy health insurance?**

While employer participation is strictly voluntary, alliances usually require businesses to pay a certain amount of the cost—either a percentage of the premium or a flat fee. Most base the employer payments on the lowest-cost plan. Typically, alliances require 75 percent of employees to participate as a way to help spread the risks.

**5. Does the employer choose the health plan, or do individual employees make the choice?**

Many alliances allow employees to choose their own health plan from a menu of approved plans. Others allow the employer to choose which two or three plans will be made available to employees.

**6. Who sets the insurance premiums?**

Some alliances negotiate rates directly with insurers through a bidding process. In Florida, alliances do not negotiate prices but simply publish rates set by insurers that are certified to sell insurance through the alliances. In general, rates for alliance plans are lower than rates for plans sold outside an alliance.

**7. Who handles administration of the plan?**

The alliance generally handles enrollment and premium collection, although these functions may be contracted out to a private administrator. Employers receive one bill that consolidates costs for all workers, regardless of the number of plans involved.

**8. Must businesses buy through insurance agents? Or can they buy directly from an alliance?**

In some states, only insurance agents may sell alliance health plans, for which they receive a commission. In others, employers may also buy directly from the alliance.

**9. What kind of information will be provided on doctors, hospitals, and insurers?**

Most alliances intend to publish "report cards" that include information on consumer satisfaction, health outcomes, and quality measurements.

**10. Is there state oversight of this alliance?**

Licensing of private alliances is required only in Iowa, Colorado, and Ohio. However, many states require alliances to be certified, meeting certain minimum standards prescribed by the state. To ask about a particular alliance, call your state insurance department.

tive of the Health Care Network of Wisconsin.

Cost-shifting occurs when large companies negotiate discounted fees from doctors and hospitals. Those providers try to make up lost revenue by charging more to small businesses—the major health-care buyers still paying nonnegotiated prices.

As big-business alliances open doors to small companies, the new small-business alliances are planning to expand. The California legislature this year will consider opening the HIPC to sole proprietors and two-person firms. These groups were excluded from the initial round of reforms because they are regarded as the highest risks. The HIPC already plans to begin accepting companies with three employees in July.

CBIA Health Connections, a private alliance based in Hartford, Conn., is open to groups of three to 50 workers because that was the range established in the state's small-group reform. "We would love to expand in both directions, and we will do that over time," says Philip Vogel, CBIA Service Corp.'s senior vice president.

Fred Barba, executive director of the Long Island alliance, makes it clear he's headed in that direction, too. "We plan to find a way to go after those sole proprietors," he says. "Later we will go after the employer groups with more than 50 employees."

> "Cost is probably what's going to get everyone's attention, but what interested me is that [the alliance] will have a report card on providers."
>
> —Katherine Heaviside, President, Epoch 5 Marketing

For all the promise they offer to small business, voluntary alliances are not a cure for all that ails the nation's health-care system. They are not, for example, going to provide coverage to the nation's 40 million uninsured—nearly 14 million of whom work for companies with 25 or fewer workers.

"You can't get there [to universal coverage] from here," says Figueroa of the California HIPC. "I think everybody pretty much agrees on that." In California, for example, only 22 percent of the firms joining the HIPC had not previously offered insurance. That percentage includes new businesses. And, while the HIPC now covers more than 80,000 people, the state has more than 6.4 million uninsured.

There are major barriers to bringing large numbers of previously uninsured small businesses into alliances, according to Catherine McLaughlin, an associate professor of health services, management, and policy at the University of Michigan. Her studies show that the main reason many small firms don't offer health insurance is that their key workers are covered through their spouses' insurance. This is prevalent in communities with large corporate employers.

A second factor is that many low-wage employees prefer receiving higher pay to making less money and getting health insurance. And, third, offering insurance just isn't feasible for some types of businesses, such as those that employ a large number of transitory or seasonal workers.

On a more hopeful note, McLaughlin's

## Broad Support For Insurance Reforms

Health-care reform may be down, but it's not out. The new Republican majority on Capitol Hill is committed to a variety of incremental changes, many designed specifically to help small businesses.

Even President Clinton, whose massive plan to overhaul the health-care system suffered resounding defeat last year, has endorsed the idea of limited reforms. In his State of the Union address in January, he asked Congress to work with him on a variety of ideas, many of which had strong backing from Republicans last year.

Chief among them is small-group insurance market reform designed to remove barriers to buying and maintaining health coverage. Under such reforms, insurers could not refuse to sell a policy to any group or individual, nor could they refuse to renew a policy because someone developed a serious illness.

Moreover, insurers would face new restrictions on their ability to exclude pre-existing conditions from coverage. Specific health problems could be excluded for a limited period—six months in most proposals—for first-time buyers. But exclusions would not apply to those who maintain continuous coverage but change policies.

Other proposals that enjoy bipartisan support include:

■ Immediate restoration of the 25 percent health-insurance tax deduction, which expired Dec. 31, 1993, for the self-employed. The House Ways and Means Committee on Feb. 8 approved legislation to restore the deduction and make it retroactive for 1994. Many lawmakers want to phase in 100 percent deductibility for the self-employed, but, under budget rules, they must come up with a way to offset the revenue loss. Only incorporated businesses currently may deduct 100 percent of their health-insurance costs.

■ Medical malpractice reform that would require alternative dispute resolution as a prerequisite to legal action, place a cap on awards for punitive damages, and cap attorneys' fees.

■ Voluntary, small-employer purchasing alliances that would help make health plans more affordable. In his State of the Union address, the president declared: "We ought to make sure that the self-employed and small businesses can buy insurance at more affordable rates through voluntary purchasing pools."

While there appears to be broad agreement on key elements of incremental reforms, the specifics of individual bills are still being worked out.

In the Senate, Majority Leader Bob Dole of Kansas has appointed a new Republican health-care task force to develop a reform proposal.

In the House, the Ways and Means and Commerce committees, both with jurisdiction over health-care reform, are expected to schedule hearings soon. Ways and Means Chairman Bill Archer, R-Texas, already has endorsed insurance market reforms and malpractice reform. Commerce Committee Chairman Thomas J. Bliley Jr., R-Va., plans to introduce a bill that includes these reforms plus medical IRAs—tax-free savings accounts to cover health-care spending.

Republicans and Democrats are motivated at least in part by polls showing strong public support for at least incremental reforms. A recent ABC News/Washington Post poll, for example, found that 84 percent of Americans regard health reform as "important" or "critical."

Even so, if Congress doesn't act before the fall recess, election-year politics will make any type of agreement difficult in 1996.

*—Roger Thompson*


PHOTO: DWAYNE NORCE

**A private alliance** *in New York appealed to Katherine Heaviside, standing, president of Epoch 5 Marketing, because it lets each of her 20 employees choose his or her own plan and provider.*

research shows that 60 percent of the firms not currently interested in offering health insurance might be persuaded to do so if they could join a purchasing alliance.

An alliance made the difference for Clark Griffin, owner of Griffin Construction in Iowa City, Iowa. Through the private alliance he joined last fall, Griffin now provides insurance for the first time for his two employees. He says he was attracted by the wide range of price and plan choices offered. Griffin pays $100 a month toward each employee's plan, roughly half their premiums.

First-time buyers like Griffin clearly will benefit from alliances. But in terms of sheer numbers, alliances probably will have the most impact on small businesses that already buy group insurance. For them, alliances offer the lure of newfound purchasing power in a marketplace where they have had none.

As the small-business demand side of health insurance gets more organized, insurers will experience competitive pressures as never before. "For the first time," says Long Island's Barba, "small-business people will be able to behave like consumers."

But alliances still face an important test. Now that most states guarantee access to health insurance, there is concern among policy experts that voluntary alliances will become magnets for high-risk groups and ultimately fall into a "death spiral" of increasing costs and rates.

This is a nearly universal concern among proponents of alliances and a common criticism of the voluntary-alliance model.

Most alliance directors say they are striving to make their offerings attractive enough to appeal to everyone, not just high-risk groups.

And a few safeguards are in place. Most small-group market reforms include waiting periods of three months to a year for coverage of pre-existing conditions to discourage the purchase of insurance only after illness strikes. Another protective measure is a minimum-participation requirement for employers—typically around 75 percent of eligible employees—to help guarantee that the pool is large enough to level out the risk across the many plans offered.

The most important defense against the death spiral, though, is to ensure that the rules for alliances are the same as those that apply to insurance policies sold outside the alliances.

"The surest way to kill an alliance is to do something so that the alliance has much more of an open-door policy than the rest of the marketplace," says policy analyst Kevin Haugh. "If you're taking all comers and the rest of the marketplace isn't, you're going to become the magnet for high-risk cases. Where you see the underwriting going on [that is, basing coverage or premiums on medical status] is in states or areas where there aren't requirements that health plans [provide coverage]—basically where there isn't insurance reform.

"We've worked with a number of groups that have tried to set up alliances in the absence of insurance reform," Haugh continues, "and our advice is you're probably committing hari-kari if you [aren't] a little selective about whom you're going to take. Not that you want to, and most of them don't. It's administratively costly, and it's not the image you want to project. But it's better that you stay in business and do some good than go out of business."

It is too early to tell how successful voluntary alliances ultimately will be in achieving their goals, but those involved believe that they are the last, best hope for the market to address the problems of cost and quality for small companies.

"We think it's better to have this done under private market reform, driven by businesses, not by federal or state laws," says Jim Wrocklage of the Milwaukee Health Care Network. "We decided, 'Why don't we step up and play the game on a voluntary basis and have input into setting the guidelines that everyone will live by?' "

Paul Pietzsch, who heads one of Iowa's two private alliances, agrees: "We think this time around it's serious business. The private sector won't have too many more chances to do this." NB

## Resources

The American Academy for Health Purchasing Alliances and Cooperatives, in Washington, D.C., provides analysis, information, and technical assistance on alliances. For information, call (202) 857-0810.

The academy is part of the nonprofit, nonpartisan Institute for Health Policy Solutions. The institute has two reports on purchasing alliances: *Key State Legislative Provisions on Purchasing Alliances* and *A Comparison of Small-Employer Purchasing Alliances.*

The latter provides detailed comparisons of 10 major alliances—in California, Connecticut, Florida, Illinois, Minnesota, New York (two), Texas, Washington, and Wisconsin.

Both reports are $15 for members of any chamber of commerce, higher for others. To order, write the institute at 1900 L Street, N.W., Suite 508, Washington, D.C. 20036, or call (202) 857-0810.

For a free copy of model legislation on private purchasing alliances (titled The Private Health Care Voluntary Purchasing Alliance Model Act), contact the Kansas City, Mo., publications department of the National Association of Insurance Commissioners, at (816) 374-7259.

*To order a reprint of this story, see Page 61. For a fax copy, see Page 26.*

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MANAGING

# Sexual Harassment: Reducing The Risks

*Even the smallest company can become the target of a lawsuit.*

*By Sharon Nelton*

In San Francisco, a female secretary receives $3.5 million in a sexual-harassment suit against the law firm of Baker & McKenzie.

A male employee at a hot-tub manufacturing company in Los Angeles wins a $1 million lawsuit claiming that his female chief financial officer made regular sexual advances.

In New York, Tiffany & Co., the jewelry retailer, is ordered to pay $360,000 to a former employee who claimed in a 10-year-old suit that she was sexually harassed and then was fired after complaining about it.

These are the kinds of stories that make business owners shudder. And with good reason. The number of sexual-harassment complaints and lawsuits has risen sharply in recent years. The percentage of human-resource professionals who said their departments handled one or more sexual-harassment reports rose from 35 percent in 1991 to 65 percent in 1993, according to a 1994 survey by the Society for Human Resource Management (SHRM).

"There's just a profound trend toward increased filing of [sexual-harassment] lawsuits," says John F. Wymer III, a partner in the Atlanta law firm of Powell, Goldstein, Frazer & Murphy. "People are much more sensitive to this than they've ever been before and much more aware of their rights."

Sexual-harassment law has its roots in Title VII of the Civil Rights Act of 1964, which prohibits discrimination on the basis of sex. Four major events in 1991, however, have led not only to the increase in legal action but also to major shifts in the way we think about sexual harassment.

The topic gained national attention when Justice Clarence Thomas, then a Supreme Court nominee, was accused of having sexually harassed former colleague Anita Hill. Another focus on the issue that year was the U.S. Navy's Tailhook scandal, involving sexual harassment of women attending a convention of naval aviators.

The passage of the Civil Rights Act of 1991 allowed jury trials and "increased the nature and amount of compensatory and punitive damages that employers may be held liable for," according to Joyce Kaser, author of *Honoring Boundaries: Preventing Sexual Harassment in the Workplace* (Human Resource Development Press, 1995).

As more and more cases go to juries and not just judges, Wymer says, the damage awards are increasing significantly. Juries, he says, "tend to be very much inclined to rule in favor of the plaintiff—the employee—and generally not very favorably inclined to rule for the employer."

A 1991 Ninth Circuit Court of Appeals case, *Ellison vs. Brady*, recognized a "reasonable-woman standard" rather than a "reasonable-person standard," promoting the understanding that women may view mild sexual harassment as a prelude to violent sexual assault and feel it creates a hostile work environment.

In a 1993 decision, in *Harris vs. Forklift Systems, Inc.*, the U.S. Supreme Court further changed the legal landscape, rejecting the requirement that a plaintiff had to prove "psychological injury" to establish a claim for sexual harassment.

If you're the owner of a small business, you may be lulled into a false sense of security, thinking that because federal law related to sexual harassment applies only to businesses with 15 or more employees, your company is in no danger of action being filed against it. But Terry Morehead Dworkin, professor of business law at Indiana University, in Bloomington, points out that many state laws are more stringent than federal law and apply to companies with as few as two or three employees.

A business owner may also be misled by the caps that federal law places on damages in harassment cases—$50,000 for smaller companies to $300,000 for the largest. However, Dworkin says, an employee can file a suit under state or tort (wrongful-act) law and receive much larger awards.

PHOTO: [illegible]—THE STOCK MARKET

**Men and women** *perceive behavior differently. A man may think a touch on the hand is innocent, but a woman may view it as a prelude to an assault.*

The Equal Employment Opportunity Commission defines sexual harassment as "unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature" when acquiescence is a condition of getting or keeping a job, a promotion, or a pay increase (*quid pro quo* harassment), or when it substantially interferes with an employee's ability to do his or her work (harassment that creates a hostile work environment).

Acts that result in a hostile work environment create the most confusion because they are less direct and the harasser may be a co-worker, not a supervisor. However, experts generally agree that such behavior as making

kissing sounds, verbal abuse, touching, and pressuring an individual for dates can constitute harassment.

You can't protect yourself from being sued, says Dworkin, "but you can help protect yourself from a successful lawsuit if you put certain procedures into place."

Here are some of the steps experts recommend for reducing or eliminating your liability and helping you ensure that your workplace is free of harassment:

The film "Disclosure," *with its female villain, has heightened awareness about sexual harassment.*

**Develop a company policy on sexual harassment,** and make sure it's communicated to and understood by employees. Your statement should define sexual harassment, make clear you will not tolerate it, describe disciplinary measures that will be taken if the policy is violated, and tell employees how to make a complaint.

Moreover, it should assure employees that their jobs will not be adversely affected if they lodge a complaint. "The biggest impediment to victims coming forward is fear for their jobs, fear they're going to be punished," John Wymer says.

Employees should have someone besides their manager to make a complaint to, says Suzy Hammett, vice president of human resources at Superior Insurance Co. in Atlanta, "because in some cases, it could be the manager harassing them."

Your policy should also inform employees that retaliation by co-workers against an individual who comes forward with a complaint will be treated as seriously as harassment itself, and that false complaints will not be tolerated.

**Train managers and employees.** All employees must understand what sexual harassment is so they can avoid it or so they can recognize it for what it is if they become targets. Managers, according to Hammett, need training in handling harassment complaints and situations.

Trade associations and other organizations make films and training materials available on the subject. BNA Communications Inc., in Washington, D.C., for example, offers a video training program for employees called "Sexual Harassment Plain and Simple." (Call 1-800-233-6067 for information.)

**Take complaints seriously.** Investigate them immediately, and take appropriate action. Just talking with a perpetrator is not enough, says Dworkin. "I've never seen a court case that has upheld that as being sufficient." If the infringement is a first-time, mild instance, the harasser can be put on probation. But if it's a severe case—for example, if there is a pattern of harassment—the employee should probably be fired, she says.

It's equally important to take seriously even a suspicion or rumor that sexual harassment is taking place, according to Wymer. "The standard for the law," he says, is that a company "is liable for sexual harassment that it knew of or *should* have known of and failed to [address with] immediate and appropriate corrective action."

As you investigate, respect your employees' confidentiality. And treat the alleged harasser with care, too. "If you move too far too fast and don't protect that person's privacy, they might sue as well," says Wymer.

Also, don't reassign or fire a complainant; keep the person informed of what you are doing to resolve the matter.

**Recognize that harassment is not just a crime of men against women.** While

# Where To Go For Help

Here are some resources that can help employers create and implement effective sexual-harassment policies:

### Books

The following books are available in bookstores unless otherwise indicated:

■ *Honoring Boundaries: Preventing Sexual Harassment in the Workplace*, by Joyce Kaser, with Bette George and Arleen LaBella. Clarifies the "gray areas" of what constitutes sexual harassment and includes a sample sexual-harassment policy. Also provides managers and supervisors with guidelines for talking with victims and alleged harassers. Available in paperback for $19.95 plus shipping and handling from Human Resource Development Press, Inc., in Amherst, Mass., at 1-800-822-2801. Ask for ISBN 0-87425-250-4.

■ *Sexual Harassment on the Job*, Second Edition, by William Petrocelli and Barbara Kate Repa (Nolo Press paperback, $18.95). Billed as a "step-by-step guide for working women" but valuable to employers and managers for its clear explanations of the law and its listing of state and federal agencies. In bookstores, or call 1-800-992-6656.

■ *Step Forward: Sexual Harassment in the Workplace*, by Susan L. Webb ($9.95, MasterMedia). Includes especially useful chapters on handling sexual-harassment complaints and educating employees.

The author also publishes *The Webb Report*, a newsletter on sexual harassment. (See the next item.)

### Publications

■ *The Webb Report* is a monthly newsletter on sexual harassment. It is aimed at small-business owners, human-resource managers, and government officials. It costs $120 per year and is available from the Pacific Resource Development Group, Inc.; 1-800-767-3062.

■ *What Every Employee Ought To Know About Contributing to a Harassment-Free Environment*, a 64-page booklet that tells employees what harassment entails and how to prevent it. Available at $5 per copy (plus shipping and handling) by calling CCH Inc., 1-800-835-5224, Ext. 2091. Quantity discounts available.

### Organizations

■ The Society for Human Resource Management's publications and conferences frequently feature sexual-harassment topics. For information on membership, contact SHRM at 606 N. Washington St., Alexandria, Va. 22314-1997; (703) 548-3440.

■ The Equal Employment Opportunity Commission has more than 50 offices across the country. For the location nearest you, call 1-800-669-4000.

■ Trade associations also can be sources of information, programs, and employee-training materials.

their numbers are still relatively small, cases involving same-sex harassment or female supervisors harassing male subordinates are on the rise.

**If a complaint is lodged, consider mediation.** "Mediation is always cheaper than a lawsuit," says Wymer. In a "white paper" on mediation, the Society for Human Resource Management describes it as a voluntary process that allows disputing parties to resolve their conflict with the help of a neutral third party.

But there are some cautions. Mediation is not appropriate when the offender's behavior is so "outrageous" as to require immediate disciplinary action or when either party is unwilling to try the process, SHRM warns. Dworkin also says there's some evidence that women are at a disadvantage in mediation because they have been socialized to be peacemakers or to compromise.

Mediators are listed in the Yellow Pages under Mediation Services. Regional chapters of the American Arbitration Association can help with referrals, or call the national office at (212) 484-4000.

**Take action against third-party harassment.** Harassers can come from the ranks of vendors and clients. If a salesman is harassing your employee, says Dworkin, it is appropriate to call the salesman's employer and say, "I don't want to deal with this person any longer."

> **The real costs of a sexual-harassment case lie in the anger, emotion, hostility, and hurt feelings that accompany it.**
>
> —Atlanta lawyer John F. Wymer III

**Consider purchasing employee-practices liability insurance.** EPLI, as it is known, protects employers against claims in areas such as wrongful termination, discrimination, and sexual harassment. (See "Protecting Against Employment Perils" in the April 1994 *Nation's Business*.)

Available for only the past several years, the coverage is now becoming more affordable for smaller businesses, according to Dennis J. Donovan, senior vice president at S.H. Smith & Co., Inc., in West Hartford, Conn., an excess and surplus-lines broker in the insurance industry.

Companies with fewer than 50 employees can now buy policies with limits up to $100,000 for premiums as low as $2,500, or $1 million for $6,500 to $7,500. Just two or three years ago, a million-dollar policy would carry a premium of $11,000 to $15,000, Donovan says.

In their efforts to curb sexual-harassment liability, some employers establish policies to discourage romantic relationships between supervisors and subordinates or even institute dress codes.

You may not want to go that far. But you do need to make every attempt you can to keep sexual harassment out of your workplace because the price of not doing so is just too high.

The real costs, says John Wymer, lie in the anger, emotion, hostility, and hurt feelings that accompany a harassment case. As he puts it: "I've seen entire companies torn apart by allegations of sexual harassment, and, frankly, the attorneys' fees are only a small overall cost of [such] litigation." NB

MANAGING

# Coping With Faster Change

*Small-business people should take steps now to ensure that their firms will remain competitive in the decades ahead.*

*By Dale D. Buss*

ENTERPRISE 2000

Entrepreneurs often are too busy fighting today's battles, and sometimes yesterday's, to think much about how they're going to manage tomorrow.

They should, however, look up from their planning calendars and balance sheets more often to consider the future and how they should be preparing for it, a number of management experts say. Doing so may well ensure these small companies' prosperity, not to mention their survival.

When you think of how the future may look, "at least the decisions you make on future opportunities can be based on where you think you want to go instead of just purely on what's happening today," says Candida Brush, a specialist in entrepreneurship at Boston University. For example, she says, an entrepreneur who thinks he might one day export should begin studying international opportunities from the outset.

While managers who have paid attention to changes expected in the next five to 10 years have been more successful than those who have not, "the consequences of not doing that over the next five to 10 years will be more profound than ever," says futurist Joel Barker, whose Infinity Ltd. consulting firm has offices in Minneapolis and Orlando, Fla.

Here is the experts' advice on key arenas of management that will be crucial as 2000 nears:

**Acknowledge and act on the predictable.** There are some things that you know will happen. Demographic shifts are an example.

In the work force, diversity of cultural, ethnic, racial, and generational backgrounds will be a matter of course. Hispanics will account for more than 25 percent of the workers joining the labor force in the next five years, Asians 15 percent, and blacks 14 percent, says the U.S. Small Business Administration.

To manage such a diverse group, promoting tolerance—and even better, acceptance—will be essential, says David Birch, president of Cognetics Inc., a Cambridge, Mass., firm that researches small companies. Some companies might want to schedule sensitivity training for managers and employees.

The aging of the work force might be a bigger challenge. Workers ages 45 to 64 will be less willing to move to new locations, change occupations, or accept part-time work, the SBA says, and they'll demand better pension benefits and provisions for services such as care for the elderly.

Another predictable change is the accelerated shift toward the "knowledge-based" economy. "Skill sets and the skill level of your work force will be virtually everything," Birch says. Yet American public education has not kept pace with increasing workplace demands.

Edward Moldt, an expert on entrepreneurship at the University of Iowa, in Iowa City, says the shortfall in skills among young people ranges from a declining ability to handle routine household and auto repairs to computer illiteracy. Immigrant workers with differing cultural and educational backgrounds will also pose challenges to employers.

"The entrepreneur will continue to have trouble hiring flexible people—those who are willing to do a number of jobs and who have the training and aptitude to do that," Moldt says. One solution for small companies is to form ties with the burgeoning number of "school-to-work" programs across the country that offer apprenticeships and internships to youths who are not college-bound. Moldt also suggests bringing in customers and suppliers to exchange ideas on how to attract good workers and how to train employees effectively for their jobs.

Technology also presents a predictable

PHOTO: T. MICHAEL KEZA

**Entrepreneurs** *should think in terms of the next five to 10 years, consultant Joel Barker says.*

*Dale D. Buss is principal of Cornerstone Communications, in Cedarburg, Wis.*

challenge. The level of technology is almost sure to increase in every business. For instance, small retailers as well as manufacturers will have to be able to perform "electronic data interchange," in which transactions, such as those related to customer orders and invoices, are transmitted electronically, with no paper involved.

And computer technology will help smaller companies design and develop new products much more quickly than they have previously, just as large companies have reaped the advantages of broad-scale computerization for years.

Small-company owners need to look at technology as an equalizer that puts them on a more level playing field with their larger competitors. "With computers and communications technology, you can find customers anywhere, and they can find you—and that wasn't possible for small companies before," says Brush of Boston University. "And the cost of information is cheaper."

> **"Business owners will be managing in a continuously turbulent environment where they can't control much of anything." That means "you can't go by the book."**
>
> —Management Consultant Richard Beckhard

To better position themselves for the continuing technological explosion, entrepreneurs should become comfortable with—and then adept at using—faxes, data bases, and other computer aids, most experts recommend. Business owners should also be willing to invest in new technology and pay for employee training.

**Get set to cope with the unpredictable.** Joel Barker's concept of "paradigm shifts" has become a popular way for American business owners to understand that they can't necessarily predict everything about the future accurately, but they will have to cope with it nonetheless.

"Right now, most people are trying to take the present rules of the game and get better at making them work," Barker says. "But it's that doggone 10 percent of the rules that change abruptly that makes the most difference."

As unpredictable as some change will continue to be, it will also come faster and faster. Think of the world of business as white-water rapids, says Richard Beckhard, principal of his management consultancy, based in New York City. In the past, the typical manager—or business "canoer"—has been able to pull over from time to time into quiet water, gather his or her thoughts and energy, and then plunge back into the froth.

"There won't be any more of those pools from now on," says Beckhard. "It's just constant white water. Business owners will be managing in a continuously turbulent environment where they can't control much of anything."

Handling the torrent, he says, means "you can't go by the book. You'll have to make many more judgmental decisions that can't benefit from past experience."

**To grow or not to grow?** It's a question business owners will have to answer. The Small Business Administration's Office of Economic Research says it will be increasingly difficult for companies with fewer than 10 employees to remain competitive unless they expand. Other observers, however, maintain that an owner who wants the company to thrive—but not necessarily grow—will be able to do business successfully in 2000.

David Birch makes the distinction between "mice," companies that generate income but eschew growth, and "gazelles," the hard-chargers that forgo in-

come to expand. Each will play a role in the century ahead, Birch says.

But even "mice," experts say, will need to become savvier to survive in 2000. Entrepreneurs who don't know their cash flow and have never heard the term "company meeting" won't make it at their current size, much less through an expansion, says Kenneth Stone, an expert on small retailers at Iowa State University, located in Ames.

"I know outstanding merchants who aren't big," Stone says, "but they carry their financial statements around in their back pocket."

**Help create a motivated organization.** The last few years seem to have broken forever the bonds of loyalty that once tied together the typical American worker and his or her employer. Over the past five years, corporate America has shed more than 1.5 million jobs.

To prosper in 2000, small companies will need to snatch up the disenfranchised and provide them and the rest of their work forces with a more relevant company culture. That means spreading responsibilities—and rewards—through programs like profit sharing and 401(k) retirement savings plans.

"The people working with you will be more educated and more informed, and so they're not going to respond to an old management style," says Stuart R. Levine, chief executive officer of Dale Carnegie & Associates, in Garden City, N.Y. "They'll respond to people who show respect and recognize the individual's dignity."

"A motivated work force is the greatest leverage you can have," says Moldt, of the University of Iowa, "so it can't be a sideline. Workers have to know what they're accomplishing compared with what is the vision."

**Anticipate and move calmly and quickly.** In 2000, you'll have more competition than ever, and your rival will be more likely than ever to be another small company similar to yours. The SBA says new-business incorporations in 1993 reached 706,000, the highest level ever. The growth is expected to continue.

About 30 percent of the population, the agency says, is "always thinking about starting a business," and 4 percent of Americans actually do so.

"You'll have to get that much sharper," Moldt says. "You might not follow every step of the process that your competitors are taking to get to the same place. Basically, you've got to become a futurist.

"Things are happening faster than ever before, and the people who can handle that and not be stressed out by it will be the competitive winners." NB

**Computer technology** *will become instrumental in finding and communicating with customers, says Candida Brush of Boston University.*

# High Achievers

*By Sharon Nelton*

The trouble with trouble is that it never comes just one trouble at a time. Any business owner knows this.

Take Robert Morris and Gary Kovner, owners of Lanzar Sound Corp., a Canoga Park, Calif., manufacturer of high-performance audio products for cars. Not only did one of their key suppliers go under, but so did Lanzar's bank. When word got out that Lanzar's chief source of financing had collapsed, many of its remaining vendors cut the firm's credit lines by 75 percent. "In terms of cash flow," says Kovner, "the company was virtually shut down for over four months, with no bank financing, no reliable supplier network, and nearly $800,000 in unfilled orders."

Or consider William L. Sage, chief executive officer and president of Assembled Products Corp., in Rogers, Ark., a company that manufactures electric shopping carts. Just about the time his young company became successful enough to attract major competition, two of its largest dealers filed for bankruptcy protection, and Sage, diagnosed with chronic fatigue syndrome, had to cut down his workload.

For Jayne Bachman, president of Bachman Printing Cos., in Minneapolis, it wasn't enough that she fell ill with both Lyme disease and malaria four years ago. At the same time, she had to cope with employee fraud and the loss of business in the six-figure range because of unethical practices of a key vendor.

Despite troubles that struck in multiples, Lanzar, Assembled Products, and Bachman Printing have survived and thrived. And because they have, they are among the 164 companies that are being honored this year as Blue Chip Enterprises in the fifth annual Blue Chip Enterprise Initiative program.

Sponsored by Connecticut Mutual Life Insurance Co., the U.S. Chamber of Commerce, and *Nation's Business*, the Blue Chip Enterprise Initiative recognizes small companies that have overcome adversity and emerged stronger as a result.

The 1995 honorees represent fields ranging from martial-arts instruction and weather forecasting to computer services and gift-wrap manufacturing. Forty of the firms were designated as top state or regional honorees, and four of those in turn were selected by a panel of judges to be the 1995 National Blue Chip Enterprises.

The stories of the achievements of the four national honorees, who were invited to receive their trophies at the U.S. Chamber's annual meeting in Washington, D.C., on Feb. 27, will be told in the April issue of *Nation's Business*.

This year's Blue Chip companies have recovered from disasters such as a devastating fire and the unexpected death of a founder. Others weathered obstacles ranging from the defection of major customers to the outbreak of an industry price war.

One of the goals of the Blue Chip

## 1995 Blue Chip Enterprise Companies

Here are the 164 companies selected as Blue Chip Enterprises in the 1995 Blue Chip Enterprise Initiative program. The top designee for each locality is listed first.

Four national honorees, to be announced in the April *Nation's Business*, will be chosen from these 40 designees by a panel of judges. (Not all states are represented on the list.)

The nature of the business is indicated when it is not evident from the company's name.

### ALABAMA

The Comedy Club (entertainment), Birmingham; One to One Personal Fitness Inc. (service), Hoover.

### ARIZONA

Commercial Blueprint Co., Inc. (service), Phoenix; Aspen Sports (retail), Flagstaff; Architecture One, Ltd., Tucson.

### ARKANSAS

Assembled Products Corp. (manufacturing), Rogers; American Taekwondo Association (martial arts), Little Rock; Arkansas Flag & Banner Inc. (manufacturing and retail), Little Rock.

### CALIFORNIA

Lanzar Sound Corp. (manufacturing, marketing), Canoga Park; Coatings Resource Corp. (manufacturing), Huntington Beach; Chad Therapeutics, Inc. (health care), Chatsworth; Custom Logos (manufacturing), San Diego; Pacific Paper Tube, Inc. (manufacturing), Oakland; Mountain Shadows, Inc. (residential care), Escondido; Luster Construction Management (service), San Francisco; Mrs. Leeper's Pasta (manufacturing), Poway.

### COLORADO

Healthcare Resources Group, Inc., Denver; Proctor Cos. (manufacturing), Littleton; PST Inc. (telecommunications sales and marketing), Denver; Interwest Communications (service), Denver.

### CONNECTICUT

A.C. Petersen Farms, Inc. (manufacturing), West Hartford; Quality Coils, Inc. (manufacturing), Bristol; MedSpan, Inc. (health

*The state honorees in the Blue Chip Enterprise program showed what it takes to overcome adversity and emerge stronger for it.*

Enterprise Initiative is to share the lessons that can be learned from the Blue Chip Enterprises with small-business owners throughout the country. Toward that end, the stories of all the honorees will be compiled in a book that will be made available later in the year. In addition, more than 50 Blue Chip enterprises, including the four national honorees and the top state and regional honorees, will be profiled on various segments of "First Business," the small-business morning television newscast produced by the U.S. Chamber and Connecticut Mutual. The television presentations will subsequently be made available on videotape.

Whatever faced them, this year's Blue Chip companies handled their problems with grit, good management, and creativity. Robert Morris and Gary Kovner at Lanzar Sound, for example, found a new bank and, to counter the loss of the major supplier, set up an in-house manufacturing operation.

Undeterred by his illness, William Sage of Assembled Products hired a top-notch manager to serve as president while he was recuperating. A new banking relationship provided the company with sufficient cash flow to pull it through the effects of the bankruptcies of the company's two key dealers. And Assembled Products focused on customer service and special product features to counter its emerging competition.

Jayne Bachman, at Bachman Printing, met her challenges by initiating a long-term health and fitness program to restore her physical and mental strength, taking legal action to recover losses from the employee fraud, and instituting practices to improve selection of employees and vendors.

This year's Blue Chip entrepreneurs are a lot like Bill Livingston, Steve Bottom, and Norman Shumaker, the owners of One to One Personal Fitness Inc., a firm they launched six years ago in Hoover, Ala., to make personal-fitness training affordable to middle-class Americans.

"Being from Alabama, [we] guess you could say we practice the 'Forrest Gump' business philosophy," they wrote in their Blue Chip application. "We weren't 'sophisticated' enough to understand that we couldn't create a whole new industry. We just did it. We weren't 'smart' enough to understand the complexity of franchising. We just did it. We didn't 'understand' that a small business wasn't supposed to call the CEO of one of the most recognized companies in the world [Nautilus, which is now a major vendor] and just ask him to come to Alabama and see our business. We just did it.

"But then ... life is like a box of chocolates ... you never know what you are going to get." NB

care), Hartford; Connex International, Inc. (communications), Danbury.

**DELAWARE**

Glackin Industries, Inc. (manufacturing), New Castle; El Sombrero Mexican Restaurant, Newark.

**DISTRICT OF COLUMBIA**

D.H. Lloyd & Associates, Inc. (insurance); Titus Austin, Inc. (consulting); Fintrac Inc. (consulting); and K&M Engineering and Consulting Corp.

**FLORIDA**

The Bernd Group Inc. (distributor), Dunedin; Medeross, Inc. (health care), St. Petersburg; Spencer and Jonnatti Architects, Largo; The MARC of the Professionals, Inc. (health care), Fort Myers.

**GEORGIA**

Key Four, Inc. (service), Tucker.

**IDAHO**

TransCorp NationaLease (service), Boise; Metalcraft, Inc. (manufacturing), Boise; Precision Craft Log Structures (manufacturing), Meridian; Beamers Hells Canyon Tours, Lewiston.

**ILLINOIS**

Priority Manufacturing, Inc., Wood Dale; Joseph Electronics (distributor), Niles; Peoria Charter Coach Co. (transportation), Peoria; Rehabilitation Achievement Center, Inc., Hazel Crest.

**INDIANA**

King Systems Corp. (health care), Noblesville; Erler Industries, Inc. (service),

North Vernon; Community Bank, Noblesville; Computer Business Services, Inc., Sheridan.

### KANSAS

Weather Or Not, Inc. (weather data), Kansas City; Cramer Products, Inc. (manufacturing), Gardner; Passport Travel, Inc., Overland Park; Fiberglass Engineering, Inc. (manufacturing), Neodesha.

### KENTUCKY

Anderson Packaging, Inc. (manufacturing), Lawrenceburg; Rick's Electric, Inc. (contractor), Mayfield; Dixie Chili Inc. (restaurateur), Newport; Wyatt Farms and Greenhouse (retail, wholesale), Benton.

### MARYLAND

Group 1 Software, Inc., Lanham; Attronica Computers, Inc., Gaithersburg; Hayman Systems (service), Laurel; DYNA Corp. (concrete manufacturing), Upper Marlboro.

### MASSACHUSETTS

Enterprise Bank and Trust Co., Lowell; LoJack Corp. (manufacturing), Dedham; MultiLink, Inc. (manufacturing), Andover; Applied Image Reprographics, North Quincy.

### MICHIGAN

Molly Maid (service), Ann Arbor; Courtesy Sanitary Supply, Inc. (distributor), Sterling Heights; Global Technology Associates, Ltd. (service), Lincoln Park; Cable Media Corp. (advertising), Farmington Hills; 4-Serv. Fourth Generation Services, Inc. (computer consulting), Troy; Northwestern Dodge, Inc., Ferndale.

### MINNESOTA

Carr Mattson Associates, Inc. (service), Edina; Mowers Photography Inc. (advertising), Minneapolis; Bachman Printing Cos. (service), Minneapolis; Yamamoto Moss (design), Minneapolis.

### MISSISSIPPI

Russell's Service Center, Inc. (auto repair, gasoline), Pass Christian.

### MISSOURI

Stone Hill Winery, Hermann; Albers Mfg. Co., Inc., O'Fallon; Berbiglia Wine & Spirits, Kansas City; Richard Link Construction Co., Inc. (real estate), Lee's Summit.

### NEBRASKA

Mature Resources (service), Omaha; Folgers Architects & Facility Design (service), Omaha; American Laboratories, Inc. (manufacturing), Omaha.

### NEVADA

North Valley Precision Inc. (manufacturing), Reno; Napa-Sonoma (retail), Reno; Paramount Auto Body, Reno; Mountain Family Enterprises, Inc. (retail), Reno.

### NEW JERSEY

SyPort Systems, Inc. (computer services), Bridgewater; Gimmee Jimmy's Cookies, Inc. (manufacturing), West Orange; Glitterwrap, Inc. (manufacturing), Rockaway; Federal Bronze Casting Industries (manufacturing), Newark.

### NEW YORK

Mansion Hill Inn and Apartments, Ltd. (lodging), Albany; Airline Container Leasing, Inc. (manufacturing), Elmont; Sensis Corp. (manufacturing), DeWitt; Fastech Inc. (manufacturing), North Bay Shore.

### NORTH CAROLINA

Simple Elegance Restaurants Inc. (food service, retail), Winston-Salem; S&L Painting and Decorating (construction), Winston-Salem; Goose Creek Manufacturing, Asheville; John F. Blair, Publisher, Winston-Salem.

### OHIO

Solar Cells, Inc. (manufacturing), Toledo; Plastic Trim, Inc. (manufacturing), Dayton; Werk-Brau Co., Inc. (manufacturing), Findlay; Mills/James Productions (service), Hilliard.

### OKLAHOMA

UroCor, Inc. (health care), Oklahoma City; Sonic Corp. (fast-food franchisor), Oklahoma City; Learning Centers of America, Inc. (service), Tulsa; Stan's, Inc. (manufacturing), Oklahoma City.

### OREGON

Willamette International Travel, Portland; Depoe Bay Fish Co. Inc. (seafood), Newport; Beautiful America Publishing Co., Wilsonville; Portland Precision Instrument & Repair Co. (retail, wholesale), Portland; West Coast Shoe Co. (manufacturing), Scappoose; Home Mortgage Corp., Tigard; Prestige Limousines (service), Portland; ISSPRO, Inc. (manufacturing), Portland.

### PENNSYLVANIA

Marc Fruchter Aviation, Inc. (service), Reading; Deborah Meyer Associates, Inc. (interior design), Bala Cynwyd; Skytech Systems (manufacturing), Bloomsburg; Keystone Friction Hinge Co., Inc. (manufacturing), South Williamsport.

### PUERTO RICO

Muebleria La Unica (retail), Mayaguez; Demaco Corp. (service), Ponce; Eden Bakery (retail), Aguada; Lourdes M. Diaz & Asociados (accounting, financial consulting), Mayaguez.

### RHODE ISLAND

New England Construction Co., Rumford; Yawgoo Valley Ski Area and Water Park, Exeter; Quantum Electronics Corp. (manufacturing), Warwick; Alga Plastics (manufacturing), Cranston.

### SOUTH CAROLINA

Employee Resource Management, Inc. (professional employment), Charleston; Lifequest, Inc. (fitness products), Charleston; Charleston Tea Plantation, (manufacturing, farming), Wadmalaw Island; SSJC, Inc., dba McDonald's (food service), Columbia.

### TENNESSEE

Nisus Corp. (manufacturing), Knoxville; Southeast Directory Co., Inc. (service), Seymour; Compcare Consulting Services, Inc. (health care), Knoxville; DAPAT Pharmaceuticals, Inc., Nashville.

### TEXAS

Lonestar-Southwest Mailing Services, Houston; Little Tot's Day Care Center, Houston; MOBILEFITNESS, Inc. (service), Dallas; Petro Rubber Products, Inc. (manufacturing), Joshua; ABIS (computer systems integration), Houston; Rheaco Inc. (manufacturing), Grand Prairie; Ad Valorem Records, Inc. (service), Houston; Amigos Canning Co., Inc., San Antonio; Beltline Mechanical Services, Inc., Carrollton; Carrousel Productions (wholesale), Houston; Data Projections, Inc. (equipment distribution), Houston; Global Services, Inc. (retail), Houston.

### UTAH

Athletic Bag Co. (manufacturing), Salt Lake City; National Applied Computer Technologies, Inc. (manufacturing), Orem; Industry West Electronics (engineering), Orem; Stevens Skin Softener, Inc. (retail, wholesale), Murray.

### VERMONT

Autumn Harp (skin-care products), Bristol; New England Culinary Institute, Montpelier.

### VIRGINIA

Strategic Resources, Inc. (engineering, software), Falls Church; Globalink, Inc. (software), Fairfax; Features International (video), Chesapeake; Earl Industries, Inc. (marine engineering, repair), Portsmouth.

### WASHINGTON

HOSTS Corp. (software), Vancouver; Trevino Mexican Foods, Inc. (wholesale), Seattle; Sunrise at Queen Anne A Retirement Community, Seattle; MIDCOM Communications (telecommunications), Seattle; Sleep Country USA, Inc. (retail), Kent.

### WISCONSIN

Lawn Care of Wisconsin, Inc., dba Barefoot, Madison; Anguil Environmental Systems, Inc. (manufacturing), Milwaukee; ART-SOURCE, Inc. (mail order), Milwaukee; Natural Ovens of Manitowoc, Inc. (manufacturing), Manitowoc.

# Small Business Computing

*There are ways to help computer users avoid eyestrain and repetitive-stress injuries.*

*By David I. Lewin*

WORKPLACE

## Preventive Medicine At Work

Increased use of personal computers for word processing, data entry, and other business tasks has drawn new attention to workplace ailments that can reduce employee productivity and increase small companies' costs for workers' compensation.

By far the most common computer-related health problem is eyestrain, estimated at 10 million cases a year by vision expert James Sheedy of the VDT Eye Clinic at the University of California at Berkeley.

"The computer is a much more visually demanding environment than people think," says Don Sellers, author of *Zap!: How Your Computer Can Hurt You and What You Can Do About It.*

A person who uses computers heavily can reduce eyestrain by adjusting room lighting to reduce glare. The worker can also condition himself to look away from the computer screen and refocus on a more distant object at regular intervals, according to Sellers. Eyeglasses prescribed specifically for use at a computer can also benefit computer users, especially those who normally wear bifocals, he says.

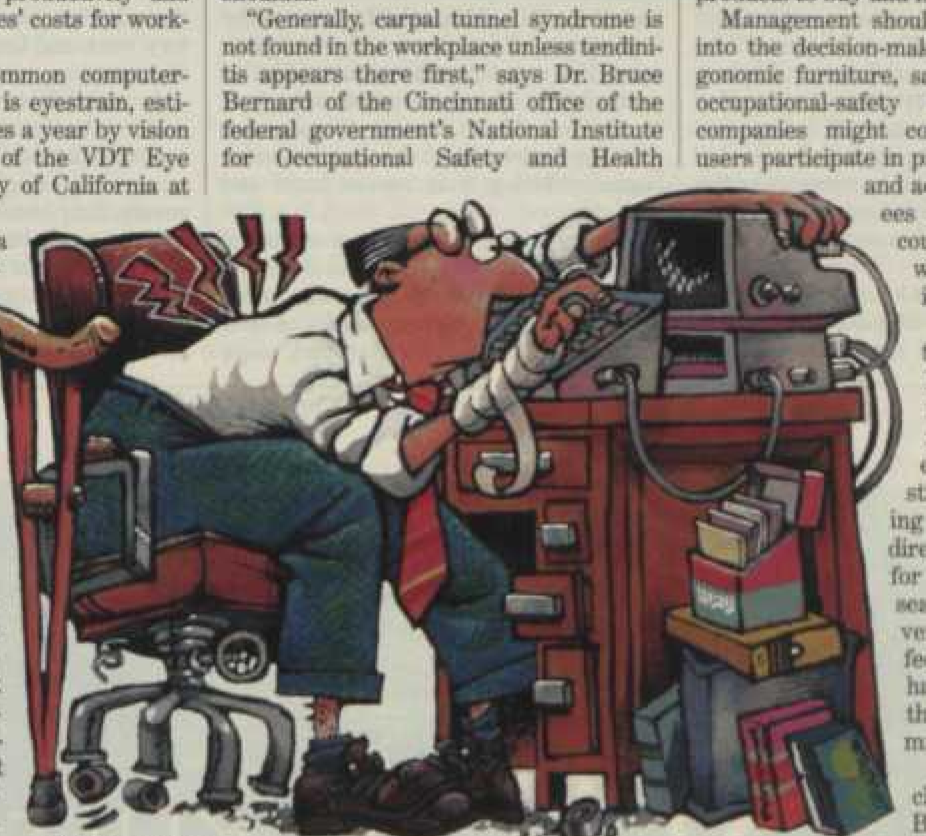
ILLUSTRATION: WILLIAM COULTER

Though less common, repetitive-stress injury (now also called cumulative-trauma disorder) "could possibly be the most serious effect of using a desktop computer and can be very debilitating," Sellers says.

One such problem, in some cases related to use of computer keyboards, is carpal tunnel syndrome. The condition occurs when inflamed tissue in the wrist swells, putting pressure on nerves that pass from the arm to the hand. Compression of the nerves causes weakness in the hand, as well as pain, burning, or tingling that can spread up the arm as far as the shoulder.

"Generally, carpal tunnel syndrome is not found in the workplace unless tendinitis appears there first," says Dr. Bruce Bernard of the Cincinnati office of the federal government's National Institute for Occupational Safety and Health (NIOSH). "You don't want to wait until tendinitis presents itself. You really need to take seriously employee complaints of discomfort."

Businesses need to evaluate the nature and extent of employee keyboard work, Bernard says. Employees who use computers extensively should be encouraged to take regular work breaks. You should also make sure that these employees have set their keyboards at the right height for them.

"Adjustable furniture is very important," Bernard says. He recommends that you make certain that the range of adjustments available in new furniture meets the needs of an overwhelming majority of your employees.

A growing number of ergonomic chairs, desks, keyboards, and other items such as pillows and wrist rests have come on the market to address computer-related muscular problems. So many of these products are available now that small-business owners may have trouble deciding what products to buy and how much to spend.

Management should bring employees into the decision-making process on ergonomic furniture, says Bernard of the occupational-safety institute. Smaller companies might consider letting the users participate in picking out furniture and accessories. Employees should also be encouraged to speak out when they are feeling discomfort.

Furniture is not the only answer, however. "One of the ways of getting rid of musculoskeletal problems is stretching," according to Marvin Dainoff, director of the Center for Ergonomics Research at Miami University of Ohio. "My feeling is that you have to remember that people are not machines."

Don E.L. Johnson, chairman of The Business Word, a communications marketing firm specializing in health matters, decided to put into practice the workplace health and safety information his company provides for employee communications publications.

About three years ago, Johnson and his wife, Susan J. Alt, who together own the 20-person company, moved the firm from Chicago to the Denver area. "We had a clean slate, a new 5,000-square-foot space overlooking the Rocky Mountains," he says, and they decided to invest in new, modular office workstations.

At a local furniture dealer, Johnson and Alt came across an ergonomic work desk system by Precision Manufacturing Inc., a Canadian firm with U.S. headquarters in Chicago. Precision's system featured

*David I. Lewin is a free-lance writer in Silver Spring, Md.*

highly adjustable work surfaces and head-high modular partitions.

In addition, Johnson and Alt ordered lighting that reduces reflection and glare on computer screens, minimizing eyestrain.

All told, the ergonomic equipment cost $60,000. "For a small business, it [was] a big cash outlay," Johnson acknowledges. He could have furnished the space for about $15,000, he estimates, but the modular furniture system allowed a higher density of workspaces and saved money on office construction.

> **The most control that an employer can exercise over health costs is control over the employees' work environment.**
>
> —Don E. L. Johnson, Chairman, The Business Word

Before settling on the furniture and lighting systems, Johnson, a former editor of the trade publication *Modern Healthcare*, carefully researched office health and safety issues. "I believe the most control an employer has over his health insurance costs is control over the environment his employees work in," Johnson says. "Of course, this is a long-term strategy."

Taking precautions to prevent computer-related ills or addressing problems as they occur need not be complex or expensive, however.

"There are a lot of things that a small-business person can do that will not cost much," according to Don Sellers, the author and expert on computer-related health problems. "One thing is to reduce the amount of stress in the workplace," he says. "Also, one needs to examine the workstation environment. Just simply look at how a person is using the workstation: Is he or she comfortable?"

Dr. Federico Faggin, president of Synaptics Inc., a small electronics company based in San Jose, Calif., knows the importance of ergonomics from experience. His company was in the midst of designing its latest product, a sensor pad to replace the mouse as a computer pointing device, when a design engineer began suffering from severe hand and arm pain.

The employee, working at a computer workstation, was using an optical mouse, which detects motion by light reflected off a special pad. "It's a very sticky mouse; it's pretty hard to move it around," says Ting Kao, the design engineer involved. "When I started," she says, "I was doing intensive computer work, and my hands started hurting quite a bit. It was quite an unpleasant period."

To deal with computer-related problems, Kao lowered her workstation, placed her keyboard atop an open drawer in her desk, and adjusted her chair. "These things helped some, but not quite enough," she says.

Kao was able to complete the project by switching to a prototype model of the company's TouchPad sensor pad. "Because you didn't have to move the mouse around, it helped with my shoulders and helped with my wrist," she says.

Kao also saw a doctor, learned about taking regular breaks from the computer, and began exercising her hand.

In addition, the company helped by changing her job to include more laboratory work and less concentrated work at the computer.

As head of a 25-person company that develops hardware linking computers and computer users, Faggin notes the importance of working with his employees to ensure their comfort.

"Basically," he says, "I've been very open to solutions that don't offend people. If people find something like a special keyboard that works for them, I'm open to investing in it." NB

# For More Help On Workplace Health

Employers who want some guidance on workplace ergonomics and computer-related health problems can turn to consultants, organizations, and eventually the federal government.

The **Occupational Safety and Health Administration,** for example, is developing a standard for office ergonomics. "The purpose of the standard is to prevent and reduce work-related musculoskeletal injuries such as carpal tunnel syndrome," says Dr. Barbara Silverstein, OSHA special assistant for ergonomics programs.

The OSHA standard will focus on getting businesses to analyze and fix whatever problems may arise with a job, she says, but it will not require that businesses use—or provide their workers with—specific equipment.

Release of the proposed OSHA standard, originally scheduled for fall 1994, has been delayed, and the agency has not given a new date.

The standard is expected to include a number of appendices containing voluntary engineering and administrative measures employers may take to prevent or reduce musculoskeletal problems, according to Silverstein. (For more on ergonomics regulation, see "Controlling Wrist And Back Injuries," August 1994.)

Among other resources for small businesses is the **Center for Office Technology,** in Rosslyn, Va. It was established in 1985 to address health and safety concerns associated with occupational use of video display terminals, personal computers, and related equipment.

Supported by computer-equipment and office-furniture manufacturers and by major insurance companies, the center publishes a series of brochures on working with computer displays in an office environment. It has also produced a self-guided training program for managers and a 20-minute videotape aimed at managers and employees. For more information, call (703) 276-1174.

More-detailed help can come from ergonomics consultants, says Don Sellers, author of *Zap!: How Your Computer Can Hurt You and What You Can Do About It* (Peachpit Press, 1994). Be cautious, however. Ergonomics is not a licensed profession, and so anyone can be called an ergonomist. "There are some people who are selling snake oil in this field," he warns.

To find a reputable consultant, he says, start with the **Human Factors and Ergonomics Society (HFS),** in Santa Monica, Calif. This organization, whose 2,500 members include researchers, students, and independent professionals, publishes a directory of human-factors and ergonomics consultants indexed by locality and field of specialization. You can obtain a directory by calling (310) 394-1811.

An increasing number of ergonomics consultants are going for certification by the independent **Board of Certification in Professional Ergonomics.** About 575 people have gone through the course work and testing to achieve certification, according to Dieter Jahns, the certification board's executive director. This represents about one-fourth of the HFS membership, a proportion comparable to the percentage of engineers who are licensed professional engineers. For a list of certified consultants, call (360) 671-7601.


Bill Borders, President Las Vegas Auto Parts Las Vegas, Nevada
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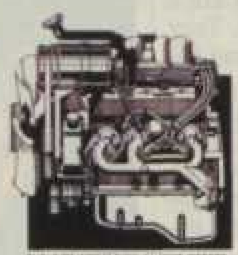

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Mr. Bill Borders owns a 1994 Safari cargo van and several other GMC Truck products.

FINANCE

# Outside Help With Cash Flow

*Banks, payroll preparers, and other service providers are enabling small firms to manage money more effectively.*

*By Joan C. Szabo*

Entrepreneur Rob Case of Houston doesn't have to worry about preparing a company payroll. For the past five years, he has used an outside service firm to do it. The firm prepares payroll checks, files paperwork with federal and state agencies, pays taxes, and stays abreast of federal tax and employment regulations.

Case and his partner, Kevin Campbell, operate teaching franchises called The Princeton Review. They pay about $12 a year per employee for the service. They have about 25 full-time employees and 300 part-timers.

Based in Houston, Case and Campbell own franchises in 12 Southwestern cities, where they train high-school and college students who are preparing to take standardized college and graduate-school admissions tests.

Because of its expertise, the service firm can handle all payroll details for the company, Case says, and "there are no surprises concerning penalties caused by errors or late tax payments."

There are several nationwide payroll services as well as some smaller, local ones. The large nationwide firms include Automatic Data Processing (ADP), based in Roseland, N.J., and Paychex, in Rochester, N.Y.

Payroll companies account for just one segment of a service industry geared to helping small companies improve their cash management. Banks play a role through programs such as daily account reporting and expedited movement of funds. Credit-checking companies, too, are helping small firms reduce their operating costs.

Outsourcing for such types of cash management works well for small firms, says Linda A. Grandstaff, executive vice president of KeyCorp Management Co., in Cleveland, because "these firms can't afford financial staffs and must spend a great deal of their time focusing on their primary business."

A recent survey of 392 fast-growing small companies by the Coopers & Lybrand accounting firm found that the functions and services most frequently delegated to outsiders were payroll services (68 percent of respondents) and tax matters (48 percent).

Outsourcing offers small companies a number of benefits, says Dick Dole, vice chairman of process management for Coopers & Lybrand. "It gives them needed outside skills and actually saves money that can be otherwise usefully applied to a company's operation." In addition, he says, it helps managers stay focused on the core businesses.

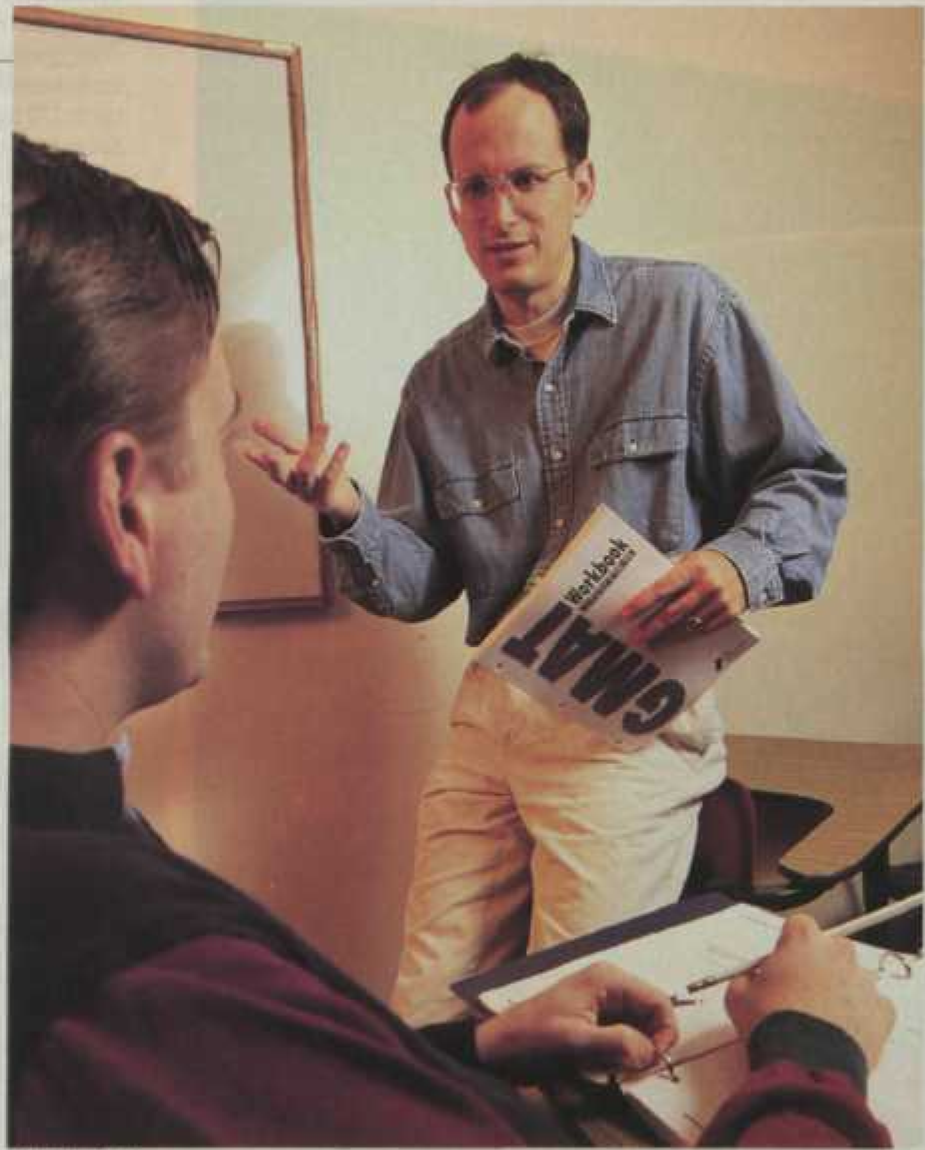


PHOTO: GREG HOWELL

**Using an outside firm** *to manage his payroll helps Houston-based franchisee Rob Case stay focused on the teaching mission of The Princeton Review.*

### Moving The Money At The Bank

Besides contracting out for payroll services, Case uses cash-management services offered to clients by the Post Oak Bank, in Houston. Among other things, he says, the bank service has helped his company double interest earned on funds. Higher earnings are achieved with the help of computer reports from the bank. The reports include information on the company's checking account activity, enabling Case and Campbell to tell which checks have cleared and have been posted to their account. They also find out quickly if they must make a deposit to cover checks they need to write, whether the company has excess funds that can be used to pay down a loan to reduce interest charges, and whether any excess funds can be swept into an investment account to earn interest.

Case and Campbell have worked out a specific minimum-balance requirement for

their bank account, which helps them avoid many bank transaction fees.

A number of banks are now offering such cash-management services to small and medium-sized firms for a fee. Many also provide a service that enables customers, through the use of touch-tone telephones or personal computers, to get account information.

Like Case in Houston, David Rasmussen of Milwaukee, owner and president of Turbine Consultants, an engineering firm, uses both a payroll firm and a bank's cash-management service. Unlike most cash-management firms, which work off-site, the one used by Rasmussen prepares his firm's payroll in the offices of Turbine.

"Outsourcing the payroll function allows us to concentrate on what we do best," says Rasmussen. Under the cash-management service he has worked out with his bank, he says, "all excess cash in our account is swept out at the end of the day to a money market account where it can earn interest. This way we get maximum use of our funds."

### Reports Via Software

Automatic Data Processing, the payroll company, has developed a cash-management software service, Business Express/PC, for small firms to use with personal computers. The service is offered to entrepreneurs through their banks and allows them to receive six types of reports: checking-account status, balance summary, detail of check transactions, check inquiry, historical averages of account balances, and checking-account statement reports.

Small-business owners can also transfer funds between their accounts from a computer at their desks, says Andy Vasher, marketing manager for ADP's Network Services Division, in Ann Arbor, Mich. In addition, they can send payments electronically to suppliers. The service is a time-saver, Vasher says, and it costs less than $40 a month.

PHOTO: ©JOHN NIENHUIS

**A management service** *invests excess cash for David Rasmussen's Milwaukee company, Turbine Consultants.*

### Credit Checks

Another way that small firms can help improve cash flow is to use outside credit-checking services, which guide them in determining whether to extend credit to new customers.

Dun & Bradstreet's Credit Recommendation Service, for example, provides small-business clients with credit reports on individual companies. (D&B does not do credit reports on individuals.) These reports include a prospect's credit-payment history; information on outstanding lawsuits, judgments, or liens; collection agency referrals; and bank balances.

Larry Winters, head of D&B's Small Business Services, says some large companies are routinely paying their bills as much as 90 days after receiving invoices. Such a lag in payment can seriously disrupt a small supplier's cash flow.

One D&B credit check on a business costs $60; the price drops to $45 per report if five are ordered. The firm's small-business advisers first provide the credit information by phone, then follow up with a written report.

### Lock-Box Processing

To improve cash flow substantially, a small business can use a lock box, says Robert W. Page, vice president of Amalgamated Bank of Chicago. With lock-box processing, payments are directed to a post office box rented in the business's name. The bank picks up checks several times a day, and the checks are brought directly to the bank for processing. Checks written to the company are photocopied to maintain a record of the transaction, and they are immediately deposited into the business's bank account. "As a result, remittances are deposited in a company's account two to three days sooner than they would be if the checks were sent directly to the company's address," he says.

By getting the money into the bank more quickly, Page says, "this translates into higher earnings through higher investment income or lower debt expense."

Information regarding these daily payments is forwarded to the company by mail or messenger for accounts-receivable posting. The monthly maintenance charge for a lock box is about $75 to $80, and there is a charge of 25 to 40 cents for each check processed by the bank.

When a small company selects an outsourcing partner for cash management, experts say, it is important to ensure a good fit. Says Dick Dole of Coopers & Lybrand: "The ideal outsourcing relationship should be one that represents a workable partnership."

The service providers must have relevant credentials, experience, and financial stability. In selecting a bank, it is important that it be especially attuned to the cash needs of small and medium-sized firms. Above all, according to the experts, look for evidence that the third party can help you gain greater control of your cash flow, cash management, and ultimately your business. NB

*To order a reprint of this story, see Page 61. For a fax copy, see Page 26.*

## Clearer Invoices, Faster Payments

If your business is having cash-flow problems, take a look at the clarity of your invoices, says Stanley Tollman, president of Tollman & Associates, a cash-management consulting firm in Atlanta.

Making sure that invoices are easily understood is critical. Too often, he says, invoices are difficult to comprehend and get put aside in favor of those that are easier to understand. Payment can be slowed, for example, if the bill-paying clerk cannot discern the total amount of the invoice or if it doesn't list product numbers.

Clerks often are required to ensure that the company has received all of the items it ordered before an invoice is paid. A clerk who can't tell because of confusion in the invoice which items have been shipped is likely to delay processing of the invoice. In such circumstances, a help telephone line can be especially useful, Tollman says. It provides the customer firm's clerks with a way to get questions answered quickly.

Tollman also recommends that you list only one address on an invoice to avoid confusion.

TRAVEL

# Your Local Bank—A Continent Away

*Here's how ATM cards let you tap your home bank account while you're traveling overseas.*

*By Peter Weaver*

If you're planning to travel abroad—for business, or pleasure, or both—you should know that you can use a bank card to get currency in other countries. All you need is an ATM card with the Visa/Plus or MasterCard/Cirrus logo on the back. Insert it into automatic teller machines overseas—and out come pounds, francs, yen, lire, or whatever.

The amount you withdraw—converted to U.S. dollars and with service charges added—is then deducted from your bank account back home. American Express has a similar but less widespread service.

"I always take my ATM card and one or two credit cards when I'm out of the country," says Linda Moore, president of I.K.S. Moore & Co., a financial-services consulting firm based in Washington, D.C., "because you get by far the best exchange rate and the machines are everywhere."

Moore uses her ATM card for walking-around money—cabs, tips, snacks—and hands over her credit card for major items, such as hotel bills, big purchases, meals, and local plane or train fares.

Moore certainly isn't alone, however; the service has been overseas for years—Visa and American Express since 1985, MasterCard since 1990. What's new is the big jump in its availability and usage by Americans.

"We're seeing a tremendous growth in American business travelers using ATM cards abroad," says Jean Stewart, Visa's vice president for the company's International ATM (Plus) Network. Last year, she says, transactions around the world were up 40 percent.

It's no wonder. Visa/Plus has its acceptance logo on more than 114,000 ATM machines abroad (plus 96,000 in the U.S.), and MasterCard/Cirrus has more than 107,000 outlets abroad (plus 78,000 in the U.S.). Most of these machines carry both companies' logos. The Express Cash service from American Express is available at about 100 locations.

To use your Visa or MasterCard to get cash overseas, you must do a couple of things before you go. First, if you don't have a PIN (personal ID number) for your credit card, get one. It's necessary for obtaining cash advances. To get a PIN, call the toll-free number listed on your card or your monthly statement.

Then you should "talk to your bank manager to find out whether your ATM card can be used where you're going, the locations where it can be used, and what transaction fees will be charged," says Ed Perkins, editor of *Consumer Reports Travel Letter.*

Visa/Plus and MasterCard/Cirrus provide most member institutions with overseas ATM directories that you can use at your bank. MasterCard also offers an ATM locator service (1-800-4-CIRRUS, or 1-800-424-7787) that can tell you where ATMs can be found in the countries you're planning to visit. Visa is planning a similar service.

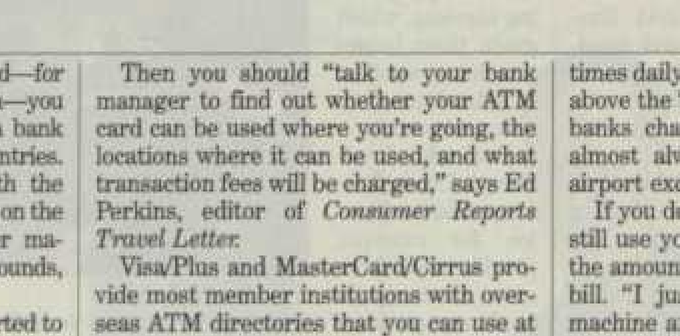


ILLUSTRATION: GEORGIA MCDONALD

Using your card to get cash has its costs, however. Your bank may charge $1 to $3 per ATM transaction. "If you're a good customer," though, says Moore, "your bank may not charge you anything—the fee may be negotiable." Of course, your bank has no control over what the participating foreign bank charges, but it probably will be less than what your U.S. bank charges, according to Visa and MasterCard. But transaction fees may be offset by the money saved on the exchange rate used by foreign banks for ATM transactions, compared with rates that would apply when U.S. currency is exchanged. "You can save as much as 5 percent," says Caroline Raeder, director of communications for MasterCard/Cirrus ATM Network.

The ATM machines don't indicate the rate—which could change daily or several times daily—but you'll be paying just a bit above the "wholesale rate," which is what banks charge one another. And that is almost always better than the rate at airport exchanges, banks, and hotels.

If you don't have an ATM card, you can still use your credit card to get cash, and the amount will show up on your monthly bill. "I just look for the nearest ATM machine and use my bank card or credit card, whichever it takes," says Simon Evans, president of Simon Evans Truss Co., a roofing firm in North Richmond, Calif.

In addition to the ATM cards offered by Visa and MasterCard, American Express has its Express Cash in about 100 airports, train stations, and American Express service centers. The fee is a percentage of the transaction, with a minimum charge of $2.50 and a $10 maximum. You can apply for the service by calling 1-800-CASH-NOW (1-800-227-4669). Participation is worked out with your bank by American Express.

Then there's the new Visa/Plus TravelMoney card. You purchase the amount of "money" you want—it's loaded into the card's minichip—from a participating bank. When you use the card at an ATM machine displaying the Plus TravelMoney logo—in the United States, Mexico, and the United Kingdom, so far—the transaction amount is immediately deducted from the balance stored in the card.

Despite all the convenience that the electronic cards provide, there's nothing like having something tangible on hand. "You should always have backup access to cash, in case the machine you want to use has the wrong logo [or] eats your ATM card or your bank's computer is down," advises Moore. If you have an ATM card affiliated with Visa's Plus System, also carry a MasterCard credit card—or vice versa.

And there's still nothing like having some hard cash or traveler's checks—just ask the credit-card people themselves. Says Raeder of MasterCard/Cirrus: "I still carry a couple of secret traveler's checks tucked back in my wallet as 'just-in-case' money." NB

REGULATION

# Putting The Brakes On Federal Rules

*Rolling back and heading off regulatory excess is a top priority in both houses of Congress.*

*By David Warner*

An Occupational Safety and Health Administration rule issued several years ago required dentists to treat children's extracted teeth as hazardous waste and to dispose of them rather than give them back to their owners. OSHA reasoned that the possible presence of blood made teeth hazardous materials.

"The dentist had to treat children's teeth differently than the tooth fairy," Rep. Tom DeLay, R-Texas, told *Nation's Business*. He noted that parents didn't have to comply with the OSHA regulation. OSHA has since clarified the rule to say that teeth may be returned to their owners as long as any blood or human tissue has been removed.

PHOTO: T. MICHAEL KEZA

**House Majority Whip** *Tom DeLay, R-Texas: The way federal regulations are made must be fundamentally changed.*

DeLay, the House majority whip, is the leader of an effort by House Republicans to rein in regulators they believe are running amok. In DeLay's view, this OSHA requirement epitomizes the often inane and seemingly unnecessary nature of many rules and regulations, many of which have costly consequences.

Americans now spend nearly $600 billion a year to comply with federal regulation, says Thomas D. Hopkins, professor of economics at the Rochester Institute of Technology, in Rochester, N.Y. That amount is equal to nearly 10 percent of the annual U.S. gross domestic product—or more than $5,900 per household.

DeLay believes Congress needs to explain to the American people the impact of regulations in their everyday lives. "We're trying to educate the American family that regulations are a big part of the reason their dollar is not going as far," he says.

Beyond education, DeLay says: "We have to fundamentally change the way the federal government promulgates regulations. We have to send a very real message to those bureaucrats out there who have been energized [to regulate]. They need to understand . . . they're not going to do business anymore like they used to."

Rolling back regulations and heading off potential over-regulation are top priorities of lawmakers in both houses of the 104th Congress.

Senate Republicans have set up a regulatory-relief task force to recommend changes in the rule-making process, to conduct oversight hearings on federal rules, and to propose changes in existing regulations.

In the House, the GOP's 10-point Contract With America lays out the regulatory-relief agenda for the lower chamber. (For an update on items in the agenda, see Dateline: Washington, Page 8.) The Senate doesn't have a uniform agenda, but several regulatory-reform bills have already been introduced.

The first bill the Senate considered this year would limit Congress' ability to pass unfunded mandates and accompanying regulations on to state and local governments and the private sector. The measure was approved 86-10.

A similar proposal, included in the House Republicans' Contract, was approved by the House on a 360-74 vote. (See Commentary, Page 70.)

Other regulatory-reform measures in the Contract would reauthorize and strengthen the Regulatory Flexibility Act and the Paperwork Reduction Act; both were adopted in 1980 and expired in 1989.

The Regulatory Flexibility Act required federal agencies to rewrite any proposed regulation their staff members determined would have a "significant adverse affect" on small businesses. The Contract calls for expansion of the law to allow the federal courts to enforce the statute.

The Paperwork Reduction Act required the Office of Information and Regulatory Affairs (OIRA), part of the federal Office of Management and Budget, to assess the potential costs and benefits of agencies' regulation and paperwork requests. The bill to reauthorize this law would require a 5 percent annual reduction in government paperwork and would overturn a U.S. Supreme Court decision that in effect eliminated from OIRA review one-third of federal paperwork requests.

Other elements in the Contract With America would establish a regulatory budget, which would limit agencies' ability to impose costly rules on business, and would require agencies to conduct analyses of the costs and benefits of proposed regulations and to assess the relative risks to human health and to the environment of activities or products to be regulated. Such reviews could be used by lawmakers to direct agencies to regulate only in areas that pose the greatest risks and where the greatest benefits could be achieved for the least cost.

In the Senate, Majority Leader Bob Dole, R-Kan., has introduced regulatory-reform legislation that includes reauthorization of the Regulatory Flexibility Act and mandatory risk assessments and cost-benefit analyses of proposed rules.

Also in the Senate, a bill has been introduced to reauthorize the Paperwork Reduction Act, and Sen. Don Nickles, R-Okla., is sponsoring legislation that would allow Congress 45 days to review agencies' rules and veto any of them deemed objectionable. A similar measure is pending in the House.

Legislation in both houses would impose a moratorium on new regulations until July 1 or until "comprehensive regulatory reform is achieved." The moratorium measures, which were expected to be approved by late February, also would apply to regulations proposed after last Nov. 8.

When asked if businesses will see an improvement in the regulatory climate by the end of the 104th Congress, DeLay said, "If they haven't seen it directly in their own shops, they will see the hope that it will happen soon, because we are going to pass regulatory reform."

(To express your views on federal regulation, see Where I Stand, Page 68.) NB

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REGULATION

# Selling To Uncle Sam: New, Easier Rules

By Laura M. Litvan

The federal government has always been ADI Technology Corp.'s most important client. At last count, federal contracts accounted for 90 percent of the Arlington, Va., company's nearly $6 million in annual revenues.

At times, though, managers at the professional-services company shake their heads over the amount of work that goes into winning those coveted contract awards. They consider Uncle Sam an excessively fussy customer.

ADI's federal work includes a variety of technical services for the departments of Defense and Energy, chiefly engineering services and environmental and safety consulting. Whenever those agencies announce that a new contract for such work is available, managers begin a time-consuming process to beat out competitors.

They prepare a comprehensive bid proposal that typically runs from 500 to 700 pages because of federal paperwork requirements. The company's president, Greg Bedner, says the firm has spent as much as $20,000, mostly in worker hours, to prepare a single bid proposal.

Ultimately, the purchasing system created by the government has grown so complex that it sometimes makes little sense to ADI and other contractors.

Philip Lader, administrator of the U.S. Small Business Administration, says he thinks the process discourages many small companies from bidding. "Very bluntly, the world of procurement has been much like the universe itself—never-ending, always expanding, and full of black holes into which common sense disappears, never to be seen or heard from again," he remarked to small-business owners during an SBA-sponsored teleconference last year.

But over the next few years, the system will likely improve. Reforms already being implemented will simplify contracting procedures and make bidding more attractive to smaller vendors.

For small companies that already vie for government work and those that want to enter the fray, preparing for these many changes is important and could provide a competitive advantage over other bidders.

Some changes will occur slowly during the next few years, as agencies rethink how they deal with the private sector in the spirit of the Clinton administration's promise to reinvent government. President Clinton reiterated his commitment to continue government downsizing in his State of the Union address Jan. 24.

But one of the most important changes was triggered last fall, when Congress overwhelmingly passed and the president signed the Federal Acquisition Streamlining Act. The new law encourages agencies to buy off-the-shelf goods rather than items made to detailed specifications. Off-the-shelf items are often significantly less expensive.

The law also establishes a simpler process for entrepreneurs to bid on many smaller contracts.

Contractors had called for such reforms for years, but the effort got an extra push in 1994 when both political parties and the Clinton administration made simplification of the process a legislative priority. Business groups, including the U.S. Chamber of Commerce, also lobbied for the legislation.

Under the measure, federal regulations that govern contracting must be recrafted no later than Oct. 1 to reflect the changes. Some rules, however, could be altered within the next few months.

Here is how the rules for selling goods and services to Uncle Sam are changing:

### Buying Off-The-Shelf

The government will put more emphasis on buying commercial items. Currently, agencies issue detailed specifications that manufacturers must meet in producing the items for them. But the new law includes a preference for off-the-shelf items already mass-produced by companies for the commercial market.

This change will eliminate the cost of the extra research and development often required to meet the government's specifications and the production of weighty documents showing that the specifications have been met.

### Bidding On-Line

The federal government will stop communicating with vendors on paper, going on-line instead. Companies will learn about bidding opportunities and submit their bids electronically over a computer system called "FACNET," for Federal Acquisition Computer Network. The system must be fully operational by Jan. 1, 2000.

ILLUSTRATION: GEORGIA MCDONALD

Several agencies already have some form of on-line system in place, which could enable them to move forward quickly once agencies agree on the particulars of FACNET.

Major government buyers such as the Pentagon could be up and running with a FACNET system by late spring, says Jim O'Connor, a procurement specialist with the Small Business Administration's Office of Advocacy.

The biggest winners here are likely to be small companies in rural areas because they should be able to learn more easily than they could before about new contracts at government installations across the country, says Jere Glover, the SBA's chief counsel for advocacy. Small contractors based near government facilities who have had an easier time learning about new contracts should be prepared for a surge of competition, he warns.

For companies already involved in contracting, the FACNET system will repre-

*Changes in federal procurement rules will simplify contracting procedures and make bidding more attractive to smaller vendors.*

sent a change in how they learn about new contracts; by the year 2000 it will all but supplant *Commerce Business Daily*, a federal publication listing contracting opportunities.

Once all agencies are on-line, no contracts valued at less than $250,000 will be mentioned in the *CBD*.

### Higher Thresholds

The threshold for "streamlined purchases" will rise fourfold, to $100,000, and they will be limited to small businesses. Currently, only contracts valued at $25,000 or less can use simpler bidding procedures than higher-cost purchases, and they are set aside specifically for companies with 500 or fewer employees that are deemed "nondominant" in their industries. Soon, this policy will apply to all contracts between $2,500 and $100,000.

These contracts involve less paperwork and record keeping. For example, contractors are not subject to certain audits, do not have to verify their compliance with the Drug-Free Workplace Act of 1988, and do not have to provide a listing of all suppliers and sources.

One upshot of this change is that agencies will be allowed to require quicker turnaround from businesses making streamlined bids; they will no longer be required to give companies a full 30 days to respond to a proposal request.

Under the law, agencies cannot begin making these streamlined purchases until they have FACNET capability.

### The Small Pieces

In a blow for some firms, small businesses will no longer have a lock on "micropurchases"—low-volume purchases of common items like office supplies, often made by authorized agency employees with a credit card.

Currently, the ceiling on these purchases is $1,500, and the contracts are set aside for small companies. But soon the threshold will rise to $2,500, and contracts will be available to vendors of all sizes.

Larger companies will probably go after some of this business even though the purchases may be low-volume; the attraction will be simplicity because there is no bidding process.

Small companies should expect to see larger competitors gearing up to sell everything from pharmaceuticals to office supplies through these micropurchases, and they should be prepared to slug it out, contracting officers say.

### Special Set-Asides

Each federal agency will be required by law to establish a 5 percent annual goal for awards to companies owned by women. The goals would take into account total prime and subcontract award dollars.

Separately, civilian agencies will have authority to limit bidding for some awards to small minority-owned companies, or to give these companies a 10 percent price-evaluation preference in making awards in competitive bidding.

In addition, federal agencies each year will now negotiate with the Small Business Administration a percentage goal for set-aside awards to minority-owned businesses. The Defense Department, the National Aeronautics and Space Administration, and the Coast Guard already have 5 percent goals for awards to minority-owned companies, and those goals will remain in place.

### Learning From Losing

Companies that lose in their effort to win an award can get a "debriefing" from the agency within five days after a winning vendor has been announced. Among other benefits, such a briefing could help a small business new to federal contracting learn why it lost and how it might increase its chances of winning the next time around.

If a small company formally appeals its loss of a contract and succeeds, the company can be fully reimbursed for attorneys' fees, consulting fees, and other costs associated with its protest of the awarding of the contract. Larger companies, on the other hand, will face a reimbursement cap of $150 an hour for such fees.

Some astute small contractors are already studying these changes and taking heart at the potential opportunities. At ADI Technology, for example, managers think the higher threshold for simplified set-aside purchases bodes well for new revenues. In the past, the company has not taken advantage of these contract opportunities at the $25,000 threshold because few professional-services contracts fall under that level, Bedner says. "In my opinion, at the $100,000 level, it will be worth it for small businesses to pursue these jobs," he adds.

Bedner is also delighted at the prospect of less paperwork. He says bid proposals for these contracts could be cut back to about 50 pages.

Reaction among other small-business contractors has also been enthusiastic. Barbara Koné, who with one other employee operates E. Maka Enterprises Inc. in Washington, D.C., thinks the procurement changes could help her business thrive. Her company sells pharmaceutical supplies to the Defense and Veterans Affairs departments and has revenues of about $150,000 a year, largely from small, simplified government contracts.

With the higher threshold for simplified purchases, she has an additional incentive to pursue the higher-volume awards she needs to expand her business, says Koné, presi-

dent of the company. "Small purchases have kept me alive, but I don't just want to be alive—I want to live."

Koné already is ahead of many other contractors because she has experimented with the on-line concept. Both the agencies she works with have pilot on-line services for communicating contracting opportunities. They are easy to use, she says. "You log on, scroll down as you look for your particular product, download the information, and print it."

The on-line systems have prevented Koné from missing any new contracting opportunities, she adds. "If it weren't for [the on-line system], right now I'm not sure I'd be in business."

Other small businesses are making plans to get on board with pilot on-line systems soon, including Dallas-based Hector Gomez Engineers Inc., a 22-employee, family-owned company that offers electrical, mechanical, and plumbing services to the government.

Managers at the company, which works with the Veterans Affairs and Defense departments and the Federal Bureau of Prisons, say mastering on-line contracting is one of the company's chief goals for 1995.

"It's very important because it quickens the process and doesn't leave a lot of room for error," says Marta Frey, the company's director of administration. "A bid proposal can't get lost in the mail, or the proposal can't get there three minutes late."

As small businesses try to digest all of these changes, they will also need to keep tabs on other procurement-related reforms under way at specific agencies they serve. Some aspects of Clinton's "reinvention" project could help make contracting more attractive to small vendors, but they are not highly publicized.

For example, Defense Secretary William J. Perry has launched his own internal assault on "mil-spec"—the arcane military specifications and standards that contractors' products must meet. In the spirit of reform, he ordered an internal review of the agency's "milspec" policies last summer to emphasize his support for the purchase of more commercially available items.

At the Small Business Administration, top agency officials are revamping the agency's popular program designed to steer more contract dollars to minority-owned firms, called the 8(a) program. The changes are expected to make the program more of a business-development resource, rather than simply a contracting program, to increase its usefulness to business owners.

Ultimately, there will be more focus on ensuring that companies thrive when they "graduate" from the 8(a) program, with more training in marketing and other areas that will help them grow their revenues in a more competitive environment.

In line with such changes, the program has been renamed the Minority Enterprise Development Program.

As small businesses struggle to keep abreast of changes in government purchasing, some of the contracting officers at agencies may be struggling right along with them.

Debra E. Sonderman, assistant director of the Treasury Department's Office of Small and Disadvantaged Business Utilization, says the procurement reforms set into motion by the new law constitute the most dramatic change in contracting since 1984, when the present rule book on contracting procedures, the Federal Acquisition Regulation, was issued.

She adds: "I think it's going to be as challenging for some of us on the inside as for business." NB

*To order a reprint of this story, see Page 61. For a fax copy, see Page 26.*

# Watching The Federal Marketplace

Here are some resources to help small businesses monitor changes affecting federal contractors and some important tips for companies that want to get involved in contracting for the first time:

■ The Small Business Administration has produced a free guide to the new procurement reform law, called the *Small Business Guide to Procurement Reform: Reinventing How the Government Does Business.* For a copy, call the SBA's Office of Advocacy at (202) 205-6533.

■ The SBA's electronic bulletin board, "SBA OnLine," has a new "sub-board" that will focus exclusively on procurement issues. To tap into this bulletin board with a computer and modem, call 1-800-697-4636; in Washington, D.C., call (202) 401-9600. Once you have logged into the main menu, choose the "services available" category, and then select "advocacy-small business services."

■ Check with agencies that might purchase your services about when they will begin to go on-line to communicate with vendors about new contracts and accept bids. Several agencies, including the Defense Department and the General Services Administration, have already developed pilot on-line systems.

■ If your company wants to compete for "micropurchases," those informal purchases that will fall below $2,500, you must be able to accept Visa credit cards. Visa holds the contract to provide agency officials with "government purchase cards," and as long as it has the contract, companies that don't take Visa cards are generally locked out of these revenues and passed over for these contracts. One contracting officer says Visa is so central to micropurchases that "you might as well go home and not even try to sell to the government" if you don't accept it.

■ To get started in government contracting, a good initial resource is the General Services Administration, the government's chief purchasing agent. At the agency's 12 business service centers throughout the country, companies can learn about GSA bidding opportunities and receive general guidance about the government contracting process. Most of these centers also sponsor monthly breakfast or luncheon networking sessions, where small-business managers can meet federal contracting officers and experienced vendors who may have useful advice for newcomers. For the number of the center in your area, call Norma Carey, the GSA's coordinator for the centers, at (202) 501-2590 or (202) 501-1021.

■ The GSA's Federal Data Systems Division can help you do your homework about the federal government's past demand for the specific goods and services you offer. It produces annually a free Federal Procurement Report containing statistics on all purchases from more than 60 agencies. On request, and for a negotiated fee, the division will produce for your company a special report examining demand for specific types of products or services, or a report on the value and number of procurements by an individual agency. Call (202) 401-1529.

# Family Business

*A new advocacy group in Washington; compelling visions in business; a workaholic looks toward retirement.*

OBSERVATIONS

PHOTO: T. MICHAEL KEZA

## Creating A Constituency For Family Firms

*By Sharon Nelton*

In what may turn out to be the largest effort of its kind, a number of family-business owners have come together to launch a national, full-service association for family-owned companies.

Called the American Alliance of Family Businesses, the nonprofit organization hopes to create a constituency of family-business owners and engage in a range of legislative, research, and educational activities.

"Advocacy is going to be a major, major factor for us," says James A. Schuping, who has just been recruited from his post as chief executive of the National Computer Graphics Association to be president and chief operating officer of AAFB.

The organization's objectives include formulating and promoting legislation at both the federal and state levels to encourage the growth and continuity of family enterprise. Toward those ends, AAFB will be strategically located in the Washington, D.C., area, where it will have access to Congress, and will have a network of local chapters throughout the country.

The organization's founders also expect AAFB to assist in the professional development of family-business managers and to be "a repository of information that will be important to the business owners in their day-to-day management," says Schuping.

At the urging of family-business owners, the Philadelphia-based Family Business Publishing Co., which puts out the quarterly *Family Business* magazine, and the Pittsburgh-based law firm of Reed Smith Shaw & McClay have worked together to get AAFB to its present stage. They have rounded up three national sponsors—Massachusetts Mutual Life Insurance Co., Citicorp, and Coopers & Lybrand—as well as some regional sponsors and have raised $200,000 to seed the organization.

AAFB's founding chairman is Milton L. Rock, chairman of Metroweek Corp., a Philadelphia holding/investment firm that includes Family Business Publishing and other publishing enterprises.

"We felt that there was a need" for an organization like AAFB, according to Charles E. Fiero, co-chairman of Family Business Publishing. "Our objective was to get it launched and get management in place and then to get out."

The 10 founding board members, all family-business owners, range from the head of a Kentucky meat-processing company to a Texas fertilizer wholesaler and manufacturer.

In the legislative arena, AAFB intends to focus on the distinct needs of family businesses, such as relief from estate and gift taxes and unreasonable regulation. Schuping says AAFB expects to "network" with such organizations as the U.S. Chamber of Commerce as well as with the Seattle-based Committee To Preserve the American Family Business, an organization aimed at eliminating or at least significantly reducing the federal estate tax on family businesses.

Schuping emphasizes, however, that AAFB's long-range goal is to be "a full-service membership organization."

Primary membership is limited to owners of family businesses. Professionals who work with family firms may join as associate members. Until AAFB finds a permanent home, you can get more information by contacting Patricia A. Nelson, *Family Business*, 229 S. 18th St., Rittenhouse Square, Philadelphia, Pa. 19103; (215) 790-7000.

PLANNING

## Passion And Its Place In Business

*By John L. Ward and Craig E. Aronoff*

We know many family-business leaders who are not only good managers and clever strategists—they are also passionate. They have deep and fiery commitments about what they are trying to accomplish, how they are trying to do it, and even why success is important.

"I want to prove that we can make the best products in our industry and do it under the strictest environmental standards," says one.

"I intend our business to be No. 1 in our market, and I mean to share the Great American Dream with all our employees," declares another.

With their capacity to inspire and motivate employees, such passions become a critical element of excellent leadership.

But they do more. A compelling vision also motivates the leaders themselves. We often see business builders who have accomplished more than they ever imagined possible.

What drives leaders who have already achieved great goals? Many wish simply to be the very best at what they do. They set goals that are never completely achievable—that are always out in front of them.

They have the need and the never fully achievable desire to improve constantly—

PHOTO: T. MICHAEL KEZA

*John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. They are principals in the Family Business Consulting Group, Inc.*

the essence of total quality management.

A passionate vision that also meaningfully addresses how to achieve success further strengthens the whole organization's motivation. Defining a way of doing business makes it easier for the leader to empower employees and provide them with direction.

Doing so also helps articulate the owner's management philosophy.

For example, several family-business leaders we know express their intentions "to prove that we can compete against the best in the world." They are committed to international benchmarking and to the constant effort and study required to be truly world-class.

One family-business chief executive says, "My real goal is to prove how much employees can do when we educate and empower them." In this company, employees provide performance reviews of one another and even select the company's medical-care package.

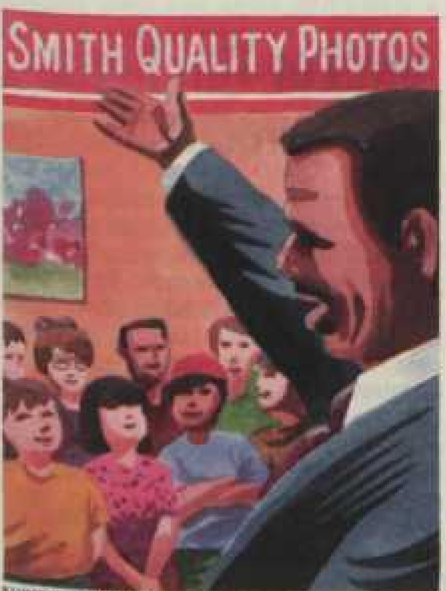


ILLUSTRATION: DAVID CHEN

Compelling visions also support the idea that success is important—by providing a sense of legitimacy that enhances organizational pride and loyalty. They also offer added purpose to business leaders' lives.

The mission statement of one business we know pronounces the company's desire "to create jobs in the African-American community."

Another proudly declares the firm's hope to be "a role model of entrepreneurship." A third emphasizes the company's wish "to add value to our society." In a similar vein, another says, "We want to grow so that we can leverage our ability to contribute to society."

Business leaders with such orientations are often willing to share with others. Our friend who wants to prove he can compete with the best in the world invites other U.S. business owners to tour his plant. The leader who delights in employee education shares the company's literacy-training ideas with others. The owner who seeks to exemplify entrepreneurship welcomes school classes for tours and talks.

Finally, we find that visions emphasizing the hows and whys of seeking to be the best help keep the business leaders humble. Rather than focusing on personal gain or power, such owners seek to do better and to share with others. "The real key to success," says one, "is to adopt a philosophy of 'servant leadership.'"

To summarize, the most successful leaders of family-run businesses we know share many of the following characteristics:

- A mission that is compelling and incompletable, so that continuous improvement is always important.
- A philosophy of management and a desire to prove it viable.
- A willingness to serve as a model, sharing information and business know-how with the hope of benefiting others.
- A commitment to being a steward—to assure that what has been created will continue far into the future—coupled with the understanding that to be a business leader is a privilege.

These leaders are really social entrepreneurs. They are building something that will help society by the examples that they set.

Such characteristics go far beyond the normal goals for businesses consisting of "growing at X percent and returning a profit of Y percent." However, these characteristics are not incompatible with growth and profit.

Indeed, they help generate growth and profit more than mere quantitative, financial goals do. Financial goals give very little direction, produce limited motivation, and fail to create a vision of the future.

While these characteristics are often present in the outstanding leaders in many fields, they have a special value for family businesses. When a mission is incompletable, it suggests the vision of an indefinitely enduring institution, uniquely appealing to long-term family ownership. Seeking legitimacy and stewardship creates a nurturing environment for family successors and a powerful value system for future generations.

But leaders with these characteristics are a very hard act to follow. In effect, they set standards for their successors that can be intimidating. Happily, their sense of mission and stewardship convince them that timely and proper preparation for successors is essential to their vision.

One of our favorite family-business leaders has told us: "I feel very fortunate to have had the privilege of helping this company grow and survive. It's my duty to be sure that it continues when I'm no longer around." ■

## MARK YOUR CALENDAR

### March 16, Weston, Mass.

"Alternative Dispute Resolution . . . Mediation," a seminar sponsored by the Northeastern University Center for Family Business, looks at how families can avoid destructive litigation by using a neutral third party to help resolve conflicts. For information on center membership, contact Paul I. Karofsky at (617) 320-8000, Ext. 8015.

### March 21, Dallas

"Introduction To ESOPs" is a workshop that shows family-business owners how an employee stock ownership plan can be used to provide for tax-favored business continuity. The workshop is to be repeated in 11 other cities. For dates and locations, call Corey Rosen at the National Center for Employee Ownership at (510) 272-9461.

### April 20, Weston, Mass.

"How Relatives Relate: Siblings and Cousins in Business Together" is a seminar of the Northeastern University Center For Family Business. For information on center membership, call Paul I. Karofsky at (617) 320-8000, Ext. 8015.

### April 26, Dallas

"Family Teampower!" is a team-building seminar covering such topics as creating consensus and transforming family members from opponents to negotiating partners. To be repeated in Houston on April 27. For further information, contact Fadene Shirley at the Baylor University Institute for Family Business at (817) 755-2265, Ext. 5.

### April 30-May 3, Philadelphia

The 10th annual "Women in Family-Owned Business" seminar is aimed at women who are or will be involved in their family firms as managers, board members, or owners. Topics include family-business dynamics, financial and estate issues, succession planning, and conflict management. For more information, contact the Family Business Learning Institute of Metropolitan New York at (201) 461-7356.

### How To Get Listed

*This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business,* Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

# A Workaholic Changes His Stripes

"I've never thought of my business as a family business," says Ray Jordan, 59, president and chief executive officer of Jordan Enterprises, Inc. "I have had the sole responsibility for this company for so long that, at times, when I'm in my office late at night, I feel trapped and alone."

Thirty years ago, Ray purchased his first apartment complex, a distressed property that, with the help of his wife, Marilyn, an interior decorator, he converted into lush garden apartments. Over the following years, Ray's energy and determination helped him acquire and renovate three additional distressed complexes. His increasing "workaholism," however, left little time for Marilyn and their sons, Mark, Todd, and Brian, and the couple regretfully divorced.

A second marriage produced a fourth son, Jason, but that marriage also ended in divorce because of Ray's continued devotion to the business. Mark, 27, and Todd, 25, have stayed in touch with Ray even though they both work in other states. Brian, 23, estranged from his father, is muddling through his fifth year of college. Jason, accepted by the rest of the family as the family star, could be the future of Jordan Enterprises. At 19, he is charming and intelligent and is often referred to as "Ray Jr." by family and friends. Ray also sees himself in Jason's mannerisms and sense of humor and wants very much to be a good father and mentor to Jason.

Ray always thought he would have to sell the business when he retired or that, at his death, his family would be forced to liquidate it. But now the possibility of treating Jordan Enterprises as a family business opens up a wealth of opportunity for the company, for the rest of the family, and for Ray himself. "But if I go this route," he asks, "how do I proceed?"

ILLUSTRATION: DAVID CHEN

## Prepare For New Leadership

Ray Jordan is a fortunate man. He has had what Zen Buddhists call a *satori*, or awakening. Now aware, he realizes he is not alone and that life and business are impermanent.

After spending years of struggling to build his kingdom and sire a royal family, he must now begin to prepare a successor and plan for his life after business. Jason is seen as heir apparent, but he *is* only 19. If he is so inclined, he could take a business curriculum at college and begin working part time in the company to learn the business from the ground up under his father's tutelage.

If Ray wishes to remain active as CEO for another 10 years while grooming Jason, Jason would be 29, the same age as his father when he started the business. Ray might see age 29 as a regal milestone—if Jason has learned well—and then feel comfortable stepping aside.

If Ray is unable or unwilling to continue running the business until a family member is ready to assume leadership, an interim strategy—perhaps including, for a while, a nonfamily president/CEO—could be developed. An outside board or advisory council could guide Ray on such a strategy and help relieve his "lonely-at-the-top" feelings.

A forum of family members could be started to expand on Ray's new awareness of a family business. This would create not only a new family tradition but also a mission statement, and valuable goals and policies would emerge as well.

The Chinese have a saying: "Bring the family to its proper order, and all social relationships will be correctly established." Once Ray's family is brought to its own "proper order," its relationship to the business will become clearer.

PHOTO: [illegible]

*Hunter Yost, M.D., a family and organizational psychiatrist and president of the Family Business Group, a consulting firm in Tucson, Ariz.*

## Aim For The Right Environment

Ray has a new opportunity to add balance to his life, reduce his feelings of loneliness, and tap into the resources available to family-business owners. He has a number of succession alternatives that can help him develop the "family-business" concept that intrigues him and that can provide a communicative, mentoring environment for Jason.

Ray should consider recruiting an advisory board of business people to provide a sounding board for himself and a source of education for his young son. Ray and Jason might also join a local "family-business forum." Such organizations keep members current on family-business issues and provide a comforting awareness that their situation is not entirely unique. Ray's presence as a partner and mentor to his son will spare Jason the feelings of isolation that plagued Ray.

Ray's business offers a variety of management and estate-planning possibilities. He can maintain control over Jordan Enterprises and transfer future appreciation out of his estate by using trust arrangements or a family limited partnership to gift heavily discounted minority interests to his heirs.

Ray's other sons may also eventually be interested in joining the company. While they are learning the business, Ray's future should be made secure. Contributions could be made to a retirement fund for him, or plans could be made to pay him ongoing advisory fees after retirement. The company could also borrow against its assets to provide Ray a large dividend to give him liquidity when he retires.

It's not too late for Ray to impart his knowledge to his successors, enhance his family relationships, and successfully pass on the family business.

PHOTO: [illegible]

*James A. Murphy, managing director of de Visscher & Co., Inc., Greenwich, Conn., a financial advisory and investment banking firm focused on family-owned companies.*

**This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute.** 

INTERNATIONAL TRADE

# What GATT Means To Small Business

*For many small firms that export, stronger protection for intellectual property will help even more than lower tariffs.*

*By John S. DeMott*

GATT is more than an acronym to Barbara Maxwell, marketing executive vice president and part owner of Synergy Software, in Reading, Pa. To her, the new accord under the General Agreement on Tariffs and Trade should help restore order to an international market where U.S. software creators alone lose about $2.5 billion a year when their works are pirated in other countries. "It's really crazy out there," she says.

Implementing legislation for the latest GATT pact, known as the Uruguay Round agreement after the South American country where the trade talks began in 1986, was approved by Congress late last year and signed into law by President Clinton, allowing GATT's provisions to apply to the U.S. beginning Jan. 1.

Although it will take a decade for all of GATT's features to become effective, for Maxwell and many other small-business owners, GATT's most important implication is already apparent. GATT will press its signatory countries, now at 124 but expected to be 144 before the end of the century, into mandating stronger legal protection for patents and other intellectual property.

This will make it possible for U.S. companies to sell abroad with less fear of losing the value of their intellectual and financial capital. Says Andre Schnabl, a partner with the Grant Thornton consulting firm in Atlanta: "GATT makes it easier for smaller manufacturers to protect patents in foreign markets. You'll be far more secure."

The intellectual-property protections included in the GATT agreement commit signatory countries to seven years of protection for trademarks, 20 years for patents, and up to 50 years for copyrights, including those for films, music, and software.

GATT effectively adds global muscle to U.S. efforts under trade legislation of 1974 and 1988 designed to stop pirating of U.S. patented products. These laws allow the U.S. trade representative to put countries on a "watch list" for purposes of restricting U.S. imports from those countries if, among other things, piracy is a problem.

Synergy, an 11-year-old software publisher, suffered because of the lack of intellectual-property protections several years ago. A college professor in Italy at the time purchased and then duplicated one of the company's programs. What had been one copy became 1,200. Says Maxwell: "Everyone on the whole campus was using VersaTerm"—a program allowing easier access to the Internet, the global web of computer networks.


PHOTO: GEAL DIMARCO JR.—BLACK STAR

**Synergy Software's** *Barbara Maxwell: From one sold copy sprang 1,200 pirated duplicates.*

Under Italian law at that time, Synergy had no way to recover any losses from the pirating of the software. "People told me to let it go. I didn't have a choice," says Maxwell. "Until two years ago, there was no law that had the word 'software' in it. The best you could do in an Italian court was try to include software in some very old copyright laws that protected magazines."

But now, under the new trade pact, Italy, as a GATT signatory, is required to provide legal protection for software and is, in fact, upgrading its protections under the agreement. Says Maxwell: "It will be much more reassuring for any smaller software developer to have things like GATT in place."

Businesses large and small almost anywhere in the stream of international commerce will be affected by GATT. It is the weightiest, most comprehensive trade agreement ever negotiated. Totaling 2,000 pages, it touches almost all industries, from agriculture to aviation and pharmaceuticals, allowing products and services to flow much more freely to foreign markets and from foreign markets to the U.S.

GATT reduces import tariffs for a wide range of products from mines, farms, mills, and factories. By early in the next century, GATT should cut prices to consumers on world markets by a total of about $744 billion, and in the U.S. by $122 billion, as tariffs drop an average of 40 percent, say its proponents.

Jim Lozelle, executive vice president of Tower Automotive, in Grand Rapids, Mich., a major supplier of frame and body components to Detroit's auto industry, defines the trade pact's meaning to him in its most elementary terms: "We should be able to buy cheaper [imported] steel."

John Howard, director of international policy and programs for the U.S. Chamber of Commerce, in Washington, D.C., says the new trade pact facilitates the exporting of products by smaller businesses, which generally can't afford to locate in the customer country, as many bigger businesses do. "Anything that levels the export playing field helps small business," he says.

Lower tariffs will benefit small firms even if they don't export. Many will profit indirectly by piggybacking on larger, exporting companies through supplier relationships. Says Michele Fratianni, a professor of business economics at Indiana University: "If you're typically a small company on the fringe of Detroit supplying GM, you'll grow as GM grows."

To settle disputes that arise under the pact, the agreement established the World Trade Organization (WTO), with headquarters in Geneva. The new organization will resolve disputes presented to it.

Details on how U.S. companies will gain access to the WTO are still being worked out. A small firm may decide to sue a patent-infringement violator, for example, but if there is no mechanism for suing

in the violating country, the firm can file a complaint with the U.S. trade representative. The USTR would appeal the case on behalf of the small company or its trade association to the WTO. The process won't be easy, but at least there will be a structure for it under GATT. Says Geoffrey Kessler, a small-business consultant in Northridge, Calif.: "You'll need a lawyer, and you'll need money and time."

What's most important to small businesses are GATT's Trade Related Aspects of Intellectual Property Rights, or TRIPS, which will be enforced by the WTO. TRIPS establishes minimum levels of protection for patents, trademarks, copyrights, industrial designs, and computer software. When there are violations under TRIPS, the WTO is authorized to act against violators.

The new system, says Kessler, is superior to the old GATT system in which rulings were recommended by panels of representatives from three nations (none involved in the dispute) and accepted or rejected by all GATT members. Countries accused of adverse trade practices effectively had to agree to panel rulings against them for the rulings to be legal.

The WTO's panels, supporters say, will be fairer because representatives of countries involved in certain trade disputes aren't permitted to be members of the panels deciding the disputes. And the WTO is the arbiter; it will resolve disputes. Says Lawrence Chimerine, managing director and chief economist of the Economic Strategy Institute, in Washington: "It should be easier to get complaints addressed and get relief."

Although GATT's requirements for intellectual-property protection and many of its tariff cuts take effect this year, other provisions will take a decade or so to phase in. But the thrust toward freer markets is helpful in and of itself.

Says Kevin Marsh of Marsh & McBirney, a manufacturing firm in Frederick, Md.: "Anytime you make a movement toward more free trade, I know we're going to benefit from it. GATT will only help our sales, period." Marsh and McBirney makes Flo-Totes—devices that measure underwater currents—and it attributes 27 percent of its $10 million in annual sales to exports. Kevin Marsh's father, company owner Larry Marsh, says the firm aims for exports to account for 40 percent of sales by 2000. "We had these plans before GATT," he says. "But it'll be easier with GATT."

The trade agreement, says ESI's Chimerine, should "create the best export environment for small U.S. companies that we've ever had." Larry Liebenow agrees.


PHOTO: T. MICHAEL KEZA

**Exports account** *for one-fourth of Marsh & McBirney's sales of water-current measuring devices, says Kevin Marsh, center, international sales manager, shown with employees Bob Goodfellow, left, and Tim Bremmer.*

President and chief executive of Quaker Fabric Corp., in Fall River, Mass., Liebenow says, "We'll have far greater access to foreign markets." Quaker, which makes upholstery for the furniture industry and has sales of $180 million annually, plans to target India, Pakistan, and Brazil, in part because of GATT.

The new trade agreement will not put a stop to intellectual-property piracy immediately, however. China, for example, is not a signatory to GATT, though it wants to be. Its participation has been blocked because the U.S. and other nations believe it may not enforce protections against piracy required under the pact. As China opens up and becomes less directed by a central government, say watchers of that country, Beijing's efforts to control the situation become harder and harder to enforce.

Piracy involving such items as U.S.-made compact disks (CDs) and software is widespread in China. Software companies "cannot expect to export to China now because they know that the first copy they bring in there is probably going to be ripped off, and no one's ever going to buy a legitimate copy," says Steve Metalitz of the International Intellectual Property Alliance, in Washington.

Under pressure from U.S. trade officials, the Chinese government in January put together a 15-page "action plan" to combat theft of intellectual property. Unimpressed, the U.S. in February announced it would impose trade sanctions against some Chinese imports.

The problem with China is of concern not only to America's Microsoft Corp., which is waging a legal battle against theft in China of its popular computer software, but to "a lot of smaller companies wanting to do business in China," says an American official of a Hong Kong trading company.

Some small companies are skeptical about the trade agreement's protections. Vermont Castings of Bethel, Vt., is in good financial shape now, but only after spending $2 million to win a design-patent suit against a company in the Far East that it says stole designs for its famous wood-burning stoves and sold cheap knockoffs in the United States. Says Scott Searle, the firm's marketing director: "It almost bankrupted us."

The same Far Eastern company, Searle says, is again selling another version of a Vermont Castings stove in the United States. "I don't know whether GATT would protect us or not" in the new dispute, says Searle, but he intends to find out.

GATT will hurt some small businesses, particularly those that are labor-intensive. John Connaughton, economics professor at the University of North Carolina at Charlotte, believes lower tariffs under GATT will eliminate the portion of the U.S. clothing industry that depends on low-skilled labor. The industry is already withering under pressure from foreign producers. "Instead of taking 20 years for all those jobs to disappear," he says, "it will take 15 years."

Job losses because of GATT are expected to be minimal, however—about 180,000 U.S. workers, or two-tenths of 1 percent of the U.S. work force, according to Alan Deardorff and Robert Stern, economists at the University of Michigan.

On the other hand, GATT is expected to create 1.4 million jobs in competitive exporting industries by its 10th year, according to the U.S. trade representative. That should benefit many small businesses, which already are exporting more than ever and taking part in world trade expansion of 7 percent a year. NB

# Buying The Right Light Truck

*Before placing the order, it pays to have a thorough understanding of your company's specific needs.*

*By Julie Candler*

Demand for light-duty trucks is at record levels, which means prices are up and waiting times for delivery are stretching out. To avoid buying more truck—or less—than you need, it's important to determine exactly how you'll use the vehicle and which combination of features would make it most productive for your business.

The growing array of choices partly accounts for the quickening sales pace. Manufacturers are struggling to keep up with orders for pickups, vans, and sport-utility vehicles despite an increase in North American production of 30.4 percent over the past two years.

"An all-time high of 6,037,946 light-duty trucks were sold in 1994, and we project that 1995 sales will exceed that," says Jesse Snyder, director of vehicle planning and technology for Auto Facts, Inc., a West Chester, Pa., company that follows the automobile and truck industry.

Fleet managers can expect a wait of eight to 10 weeks for some vehicles, according to Ron Tomasin, sales manager at Troy Ford, Inc., in Troy, Mich. For special orders with customized accessories, the wait can be 10 to 12 weeks, he says.

Prices reflect increased demand. The 549 fleet managers who responded to a recent National Association of Fleet Administrators survey said they expect prices for 1995 replacement light trucks will be up an average of 5.7 percent.

To get your money's worth, it's important to ask yourself the right questions. What type of cargo will the truck carry? How heavy will the maximum payload be? What dimensions would be appropriate for the cargo area?

Other things to consider: Will the vehicle tow a trailer? If so, how heavy will the trailer and its load be? Will the truck be mainly used in the city or on the highway? Will it be used on mountain roads and rough terrain? About how many miles will the vehicle be driven each year? Does it need any special equipment, such as a trailer hitch or rear step bumper? How will the vehicle be loaded? By forklift? Pallet jacks? A crane or a winch? Will the truck be fitted as a wrecker? As a dump truck?

Answers to questions like these can help you and the dealer find the vehicle that best suits your needs. Sometimes, Tomasin of Troy Ford will get a call from an office employee looking for a bid on a truck that his or her company intends to buy. "We start questioning them," he says, "and they have no information about the applications for which the truck will be used." Tomasin prefers to talk with the fleet manager or even the person who will drive the truck.

### The Right Truck For Less

Once you know what you *really* need, you might end up spending less than you had planned. The owner of a business that specializes in show exhibits told the Troy dealership that he needed a full-size, three-quarter-ton F-250 Ford pickup with heavy-duty suspension to haul a 5,000-pound trailer. In talking with the customer, a truck salesperson learned that the buyer would haul the trailer only three times a year, for 10 miles each trip. The rest of the time the maximum payload would be less than 2,000 pounds.

"We ended up giving him the lower-priced F-150 truck with modifications to handle that three-times-a-year extra load," Tomasin says. "We added a trailer-towing package, auxiliary transmission cooler, and heavy-duty engine cooling. It saved him about $3,000."

Century Telephone Enterprises, Inc., a rural telephone provider that is based in Monroe, La., and that operates in 14 states, has developed specifications regarding size and configuration of vehicles. "The specs are garnered from talking to people in the industry and going to truck shows and equipment seminars," says Pipes Barham, the company's fleet manager. "Some large truck dealers are pretty knowledgeable about trucks. A lot of times you can get with the dealers and they will help you work up a set of specifications."

The company, which operates 800 trucks, knew exactly what it wanted when it replaced its pickups with Ford Aerostar minivans. The beds of the pickups were enclosed, but Century felt that the vehicles lacked protection from weather and theft. In addition, the drivers said they needed more room to carry tools and equipment.

Century's specifications called for a rear-wheel-drive cargo van with a 3-liter V-6 engine and automatic transmission. It wanted a lower-than-standard axle ratio of 3:73 to provide more torque (engine turning force) to accommodate heavy loads. For improved security, the company also wanted side and rear windows that can't be opened. And to provide more space for equipment, Century wanted the

PHOTO: SPAUL GUILLORY

**A fleet** *of Ford Aerostar minivans provides comfort and loading capacity for Century Telephone employees like Ben Malone, visiting a Louisiana fiber-optics terminal.*

spare tires located beneath the vehicles.

Before the minivans went into service, they were fitted with shelves as well as a safety partition behind the driver's seat to protect against shifting loads.

A fleet of big Chevrolet Suburban sport-utilities meets the needs of the Tennant Co., a Minneapolis manufacturer of floor-cleaning equipment. Steve Kolkind, fleet manager, says sales personnel sometimes need the vehicles for personal use. But the same 350 utility vehicles must be powerful enough to pull a trailer-load of samples weighing up to 10,000 pounds. "Even though their fuel consumption averages about 11 miles per gallon, they're filling the bill for about 30,000 miles a year," Kolkind says. "The salesman looks like a professional salesperson."

### Shapes And Sizes

To make such an informed choice, it's helpful to know the various configurations and sizes available. Light-duty trucks make up Classes 1 through 4, according to the weight classifications of the American Trucking Associations, an industry group based in Alexandria, Va.

Class 1 includes vehicles up to 6,000 pounds of gross vehicle weight, or GVW, which is the weight of the vehicle, its occupants, and its cargo. Among Class 1 vehicles are compact pickups, midsize pickups, minivans, and small sport-utility vehicles. A compact pickup, such as the Chevrolet S-10 and the Ford Ranger, can carry payloads of 1,250 to 2,000 pounds, including three 150-pound passengers in its regular cab.

Midsize pickups, such as the Dodge Dakota and the Toyota T100, handle heavier loads. For example, the Dodge Dakota's maximum payload is 2,600 pounds; the Toyota T100's is 2,480 pounds.

Minivans such as the Dodge Caravan, the Chevrolet Lumina, and the Ford Aerostar have payloads of 1,190 to 2,000 pounds. The GVW ratings of minivans range from 5,100 to 6,100 pounds.

Class 2 (6,001 pounds to 10,000 pounds GVW) includes most full-size pickups, full-size vans, and full-size sport-utility vehicles. Payloads range from 650 pounds for sport-utilities like the Land Rover Defender to 5,290 pounds for pickups like the Dodge Ram 3500.

Vehicles in Class 3 (10,001 to 14,000 pounds GVW) and Class 4 (14,001 to 16,000 pounds) include full-size pickups with more weight capacity than those in Class 2, as well as delivery trucks, step vans, and others. Often, a special body is added to the cab-chassis combination, as in campers and rental movers.

### Engines, Transmissions, Etc.

After you have decided on size and configuration, you need to focus on the engine and transmission. "Try to get the right engine and transmission and axle combination," suggests Pipes Barham of Century Telephone Enterprises. "If you buy a small engine and load it up, you are going to tear it up."

The main job of a truck engine is to produce torque, which is the pulling power that supplies punch during acceleration and performance under heavy loads. Diesel engines in general produce higher torque than conventional, gasoline engines, which explains their use in heavy-duty trucks. Diesel engines also can last longer. "Diesel customers tend to run 500,000 miles with them," says Bart McLellan, program planning chief for Chrysler Corp.'s new full-size Dodge Ram pickup.

A diesel engine adds $3,000 to $4,000 to the cost of the vehicle. The optional gasoline-powered V-10, available in the Dodge Ram pickup for an additional $747, delivers horsepower that exceeds that of a similar-sized diesel and torque that is comparable.

Automatic transmission costs $750 to $1,000 extra, but the premium can be worth it. Michael Colbert, purchasing agent for Ash Grove Cement of Overland Park, Kan., chooses automatic transmission when he knows a truck will be operated by more than one driver, noting that a clutch in a vehicle driven by several people tends to wear quickly. "We have enough different people driving the trucks, and we don't want to replace clutches," he says. "Also, the automatics are easier to drive."

Tom Bullis, director of service support at LeFebure Corp., a Cedar Rapids, Iowa, company that produces and services electronic cash-handling and security equipment at 29 centers nationwide, notes that it's easier to resell a vehicle with automatic transmission. "Automatics," he adds, "are easier on the drivers who spend hours every day in their vehicles."

Nearly all pickups, whether compact or full-size, are available with four-wheel drive for $2,000 to $3,000 more. This feature increases wheel traction in bad weather and in off-road driving. Drivers can shift between two- and four-wheel drive as needed.

Many minivans offer all-wheel drive, a system that automatically shifts the power balance between the front and rear wheels as the road conditions change. "We get all-wheel drive for our minivans in snow country," says Barham of Century Telephone Enterprises. Expect to pay $1,000 to $2,000 more.

### Fuel Economy

Whether it's a compact pickup or a full-size van, all late-model trucks are delivering improved fuel economy. Manufacturers of trucks that weigh less than 8,500 pounds are meeting the Department of Transportation's national standard of 20.6 miles per gallon for corporate average fuel economy (CAFE).

"With more-sophisticated engineering and technology, fuel economy of gas-engined trucks is better than it was even three years ago," says Jay Surratt, light-truck commercial marketing manager at the GMC Truck Division of General Motors.

According to James Baumbick, a Ford F Series marketing assistant: "With a big, powerful engine, you can still get good fuel economy." NB


PHOTO: STEVE WOIT

**A maker** *of heavy floor-cleaning equipment, the Minneapolis-based Tennant Co., relies on Chevrolet Suburbans for deliveries. Employee Wayne Koty loads a sweeper.*

# Small Business Financial Adviser

*Preparing a partnership for "what if?"; charity with a bonus; a fresh look at the bond market.*

## The Importance Of Buy/Sell Agreements

*By Mary Rowland*

In 1975, when two businesswomen in Kingston, Pa., bought a Tudor-style building to break into seven retail shops, they asked Delores M. Taren to run one of them. "They told me I could take my pick," she recalls. She rejected selling books or stationery before agreeing on lingerie.

Two decades later, Taren and her founding partner, Wendy Anzalone, have not only expanded their store, Pillow Talk, and added a number of product lines, they have also dealt with a difficult business decision that many firms ignore or put off: They have drawn up a "will" for their company—in business terms, a buy/sell agreement.

The buy/sell agreement, which spells out what would happen to the firm if one of the partners were to leave the business, is important for their shop because in 1980 Anzalone developed multiple sclerosis, which created uncertainty about how long she could continue working.

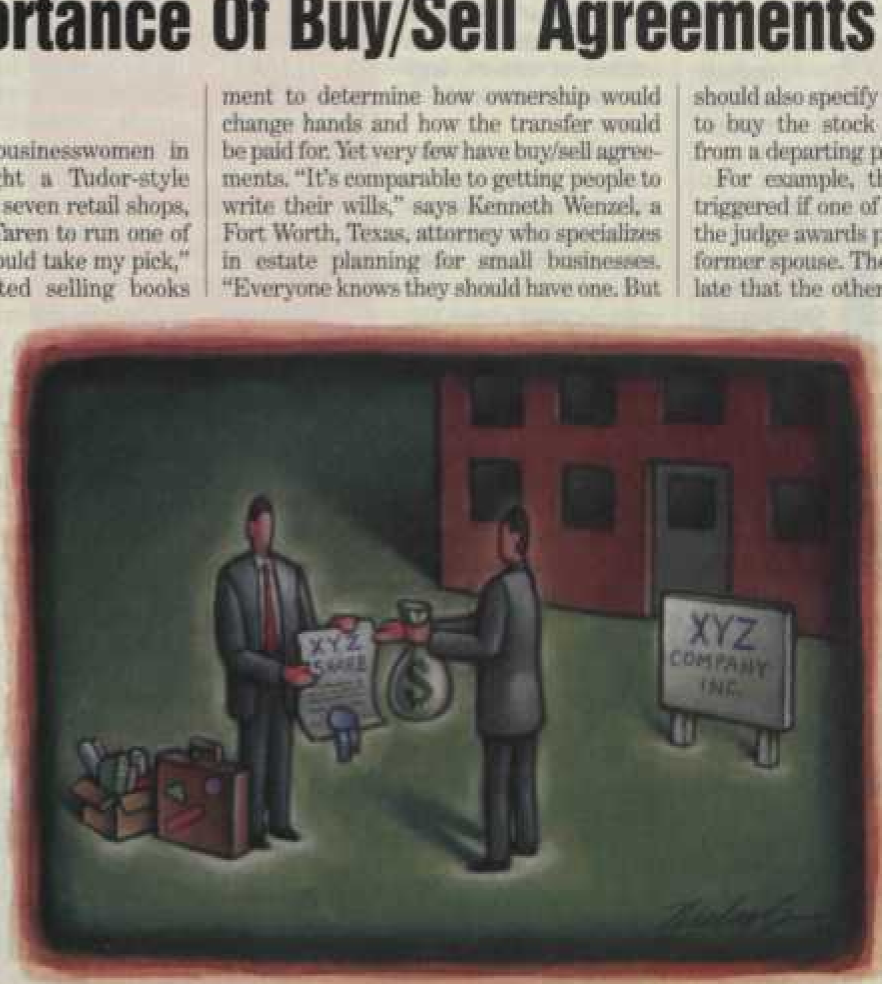


ILLUSTRATION: GARRY NICHOLS

It was Anzalone, then a 24-year-old former manager in a lingerie chain, whom Taren, then 42 and the wife of a plastics-factory owner, sought out as her partner after agreeing to run the lingerie store. In two decades, the store has grown to 3,600 square feet from 200, and today it features not only lingerie but also jewelry, lounge wear, and prostheses. "Business is booming," says Taren, who is now divorced.

Although the disease's progression has been slow and Anzalone remains active in the business, the two worked out a buy/sell agreement that specifies the terms of a buy-out by either party in the event of death, disability, or retirement.

Lawyers and accountants say that all closely held businesses need such an agreement to determine how ownership would change hands and how the transfer would be paid for. Yet very few have buy/sell agreements. "It's comparable to getting people to write their wills," says Kenneth Wenzel, a Fort Worth, Texas, attorney who specializes in estate planning for small businesses. "Everyone knows they should have one. But everyone puts it off."

Today, unlike the time when Taren and Anzalone set up shop, there are some pressures from outside to complete buy/sell agreements. Banks that make loans and companies that provide bonding for construction jobs often insist that small businesses have such agreements. "They say, 'We're relying on Joe and David to run this business,'" Wenzel says. "'If something happens to Joe, the company looks different to us. We don't want to deal with the spouse or children.'" So a buy/sell agreement is often a precondition for bank financing or a bonding agreement.

A buy/sell agreement, which might cost about $2,500 to have an accountant or lawyer draft, should name the various events that would trigger a change of ownership. Most commonly, these include death, divorce, or retirement. The agreement should also specify who would have the right to buy the stock or partnership interest from a departing principal.

For example, the agreement might be triggered if one of the owners divorces and the judge awards part of the business to the former spouse. The agreement would stipulate that the other owners would have the right to buy that interest back and would set the price for the buyback.

"The idea is to give the owners a right to keep the business among them," says Michael V. Bourland, Wenzel's partner. "In order for it to hold up, all spouses must also sign the agreement when it is formulated."

The agreement should also stipulate how the business would be valued. "When something happens, you don't want to have to negotiate price or terms," Bourland says. "You want it all laid out, so there is no dispute."

The formula need not be complex, but it must be part of the signed agreement. For example, the partners or shareholders might agree to sit down each year and put a value on the business for the following year. If something happens to trigger the agreement during the year, that price would be used for the buyout.

Alternatively, the partners or shareholders might stipulate that the business will be appraised by three appraisers and that the middle figure will be used. Or they might simply agree that they will close the books and use a simple preset formula, such as the average of pretax income over the most recent three years multiplied by 8 or 10.

Another aspect that the agreement must address is financing for the buyout. If one owner is retiring, the money to buy out that owner can come out of cash generated by the business or from a cash-value life insur-

ance policy set up for this purpose. If one owner dies, the proceeds from the policy, which is owned by the other owner or the business itself, would be used to buy the share of the business that had been owned by the deceased.

Taren and Anzalone's agreement calls for a combination of the two approaches. Money from a cash-value policy would be used as a down payment, and the remainder would be paid off over time.

There are two basic ways to structure a buy/sell agreement, each with pros and cons. One method is a cross-purchase agreement, in which the remaining owners buy the departing owner's stock or partnership interest. The advantage of this type of agreement is that the purchasers get a tax-saving "step-up" in basis to the market value of that portion of the business.

Consider this example. Suppose two partners put up $25,000 each to start a business that is now worth $2 million. One partner wants out. Under a cross-purchase agreement, the partner who buys that half share of the business takes $1 million as his basis for income-tax purposes rather than the $25,000.

With a cross-purchase arrangement, the owners typically buy life insurance policies on one another to finance the agreement. If there are just two owners, it's pretty straightforward. "But if you have eight shareholders, that would mean buying dozens of policies," Wenzel says. (See "Lowering Costs With First-To-Die," October 1994.)

With the other type of agreement, called a stock-redemption agreement, the company buys the stock of the departing owner. In this scenario, the company would own the life insurance policy and pay the premiums. An advantage to this type of agreement is that if there are a number of owners, only one policy on each is necessary.

> "When something happens, you don't want to have to negotiate price or terms. You want it all laid out, so there is no dispute."
> —Michael V. Bourland, Attorney

There are some disadvantages, however, to a stock-redemption agreement. First, the company does not get the same step-up in basis. In the example cited above, the company would pay $1 million for the half share, but it would carry a basis of only $25,000. If the business later were sold, capital-gains tax would be due on the amount over $25,000.

A second disadvantage is that if the life insurance to finance the redemption agreement is owned by a C corporation, the company may become liable for the alternative minimum tax (AMT) on any proceeds.

The AMT is not a problem for S corporations, though. "Today more and more people are set up in S corps," Wenzel says. "They typically use redemption agreements because they like the idea of the corporation paying the premiums." The premiums are not deductible to either the individual or the corporation, so the type of agreement—cross-purchase or stock-redemption—"makes little difference economically," he says.

Having a buy/sell agreement in place makes a great deal of difference, though, to guarantee the smooth transition of a business and ensure that it need not be sold at an inopportune time.

"The absence of an agreement can lead to chaos with different interests pulling the business in different directions," says John D. Dadakis, an estates partner at Rogers & Wells, a New York law firm.

And an event that can threaten the stability of a partnership typically happens, he says, "when people are least prepared to deal with it." ■

TAXES

## Tips On Maximizing A Charitable Deduction

Thinking about junking obsolete company inventory? Consider contributing it to charity. You may get not only the satisfaction of helping the needy but also a bigger tax deduction than you'd receive if you simply abandoned the material.

Take, for example, a corporation that manufactures blankets. Last June, it produced a batch of 3,000 that were ruined in the dyeing process when the colors ran. Because of the blankets' appearance, no retailer wanted them, but they were otherwise usable. The blankets cost $15,000 to produce and had an estimated value of $45,000, taking into account their appearance.

If the company were to throw out the blankets in 1994, it could take a tax deduction of $15,000 (the cost of the blankets). If instead the firm were to give the blankets to charity, it would generally get the same $15,000 deduction, subject possibly to having the deduction limited to 10 percent of the corporation's taxable income, as discussed below.

The company could contribute more wisely, however, and increase its deduction. For example, it could give the blankets to a number of homeless shelters for use by shelter residents, which would make it eligible for a special charitable deduction larger than $15,000. This deduction would amount to the production cost plus one-half of the potential profit—in this instance, $30,000—but limited to twice the $15,000 basis of the inventory. In other words, the deduction would be $30,000 ($15,000 plus half of $30,000).

Here's where the deduction limit of 10 percent of the company's taxable income would kick in. If the company's taxable income were $300,000 in 1994, its maximum charitable deduction would be $30,000. If the company's taxable income were only $250,000, then only $25,000 of the $30,000 would be deductible in 1994, although the $5,000 balance could be carried forward for five years.

To qualify for this special charitable deduction, the company must be a C corporation. Also, the property must be used by the charity in its exempt function and solely for the care of the ill, needy, or infants. Moreover, the property must not be subsequently sold or exchanged by the charity.

Thus, if the company were to give the blankets to a homeless shelter that already had enough blankets and if the shelter sold them, using the proceeds for their residents, the special deduction would not be applicable. The deduction would then be limited to the production cost of the inventory: $15,000.

ILLUSTRATION: GEORGE McDONALD

The corporation must receive a written statement from the charity that the use of the property will be in accordance with the rules. Check with your accountant on the contents of this statement.

In addition, it would be a good idea to have your accountant make the calculations to determine whether the special deduction, the regular deduction, or simple abandonment would be most advantageous in your tax situation.

*—Albert B. Ellentuck*

PAYROLL

# Don't Withhold Twice When Once Will Do

Some small companies with employees who live in a state other than where the firm is located may be unnecessarily withholding income taxes for both states when withholding for just one would be sufficient.

Although such double withholding is required by some states, it has been eliminated in 15 states that have entered into reciprocal income-tax-withholding agreements. RITWAs allow employers to withhold state income taxes only for the state where employees live. (See the chart.)

In states without RITWAs, double withholding may be necessary if the company does business in the state where the employee lives and if that state's income tax rate is higher than the rate where the employee is working. In such circumstances, the company generally must withhold for the state where the business is located as well as the difference between the two tax rates and then remit the difference to the employee's resident state.

Although RITWAs eliminate the need for such double withholding, many small companies aren't aware that the agreements exist, says Robert S. Peters, partner and national director of payroll and unemployment tax services with KPMG Peat Marwick in Stamford, Conn. As a result, these companies end up spending a significant amount of administrative time and money withholding taxes for two states.

In addition to the added administrative burden for businesses, employees face a compliance burden by having to file two state tax returns. Upon filing a state tax return, employees receive a tax credit from their resident state for every dollar in taxes paid to the state of employment.

The states with reciprocal agreements are mainly in the East and Midwest. "They essentially say, 'Tax the out-of-state commuters based on residence,'" says Verenda Smith, government-affairs associate with the Federation of Tax Administrators, in Washington, D.C.

Mary Jane Egr, an attorney specializing in state and local tax issues for the accounting firm of Grant Thornton in Chicago, cites the example of Iowa and Illinois, which have a RITWA: A Davenport, Iowa, company that has employees commuting across the Mississippi River from towns in Illinois is not required to withhold Iowa taxes from those employees' paychecks. (The firms must withhold Illinois taxes, of course.) Likewise, Illinois-based companies with Iowans on the payroll don't have to withhold Illinois taxes from those employees; they withhold only Iowa taxes.

If you operate a company in one of the RITWA states and if you are withholding income taxes for two states, accountant Peters says, you should check with your state's department of revenue to obtain the necessary forms so you can withhold employee income taxes for just one state.

*—Joan C. Szabo*

## States With No Double Withholding

Through reciprocal agreements, double withholding of state income taxes has been eliminated in 15 states and the District of Columbia

| THIS STATE... | HAS AGREEMENTS WITH... |
|---|---|
| ILLINOIS | Indiana, Iowa, Kentucky, Michigan, Wisconsin |
| INDIANA | Illinois, Kentucky, Michigan, Ohio, Pennsylvania, Wisconsin |
| IOWA | Illinois |
| KENTUCKY | Illinois, Indiana, Michigan, Ohio, Wisconsin, West Virginia |
| MARYLAND | Pennsylvania, West Virginia, District of Columbia |
| MICHIGAN | Illinois, Indiana, Kentucky, Minnesota, Ohio, Wisconsin |
| MINNESOTA | Michigan, North Dakota, Wisconsin |
| MONTANA | North Dakota |
| NEW JERSEY | Pennsylvania |
| NORTH DAKOTA | Minnesota, Montana |
| OHIO | Indiana, Kentucky, Michigan, Pennsylvania, West Virginia |
| PENNSYLVANIA | Indiana, Maryland, New Jersey, Ohio, Virginia, West Virginia |
| VIRGINIA* | Pennsylvania, West Virginia |
| WEST VIRGINIA | Kentucky, Maryland, Ohio, Pennsylvania, Virginia |
| WISCONSIN | Illinois, Indiana, Kentucky, Michigan, Minnesota |
| DISTRICT OF COLUMBIA | Maryland |

*Also with Kentucky, District of Columbia, and Maryland with limitations

BANKING

# Debit-Card Use Growing Fast

Small businesses are rapidly adopting the newest way to accept payments for goods and services—debit-card transactions. At the start of the '90s, merchants nationwide had only 46,000 devices installed to accept on-line debit-card transactions. Now, according to Chicago-based *POS News* (POS stands for point-of-sale), there are 343,000 devices, and the number is expected to quadruple by the year 2000.


Merchants welcome debit cards because they are a quick and safe substitute for cash or checks. Says Steven Baum, president of Greetings and Readings, a Towson, Md., store that sells books and office supplies: "Debit cards help us eliminate the use of checks, which saves time and money and eliminates fraud."

Debit cards also boost cash flow and cost less than credit-card transactions. When a customer pays with a debit card, the money is quickly transferred from the customer's bank account to the merchant's account. And while merchants pay on average 25 cents for a debit-card transaction, they pay 2 to 3 percent of a credit-card sale.

As a bonus, "merchants are also discovering that customers tend to spend more with the debit cards than they do with cash or checks," says Laurie Giesen, editor of Chicago-based *Bank Network News*, an electronic-banking newsletter.

There are two types of debit transactions, either of which can be performed by an ATM (automated teller machine) card.

One requires the customer to punch a PIN (personal identification number) on a pad, activating immediate transfer of the money to the merchant's account. This is called an on-line transaction, and it is the type of debit transaction more favorable to the merchant's bottom line.

The other type of debit transaction resembles a credit-card sale and costs a merchant the same 2 to 3 percent fee. The customer signs a credit-card receipt, but the sale does not show up on the monthly credit-card statement. Rather, the money is transferred within two to three days from the customer's bank account to the merchant's account. This is called an off-line transaction. (For more details on card transactions, see "The Changing World Of Financial Services," October 1994.)

*—Peter Weaver*

INVESTING

# Time To Buy Bonds?

*By Randy Myers*

Investors who watched the bond market get plastered in 1994 now have a fortuitous opportunity. Interest rates have climbed high enough to enable bond buyers to lock in respectable investment returns with relatively little risk, financial experts say.

"I think bond prices are pretty much at the bottom," says Wesley Bigler, a certified financial planner in Atlanta, echoing the sentiments of many investment advisers. "At the start of 1994, I took a lot of clients out of bonds and put them into cash. Now it may be time to go back in." Merrill Lynch, one of the nation's biggest brokerage houses, agrees. Late last year it raised the bond portion of its benchmark model portfolio to 40 percent from 35 percent.

The key to fashioning a profitable bond strategy is knowing your objective. Decide first whether you're seeking income (the interest paid to you by the bond issuer) or capital appreciation (increases in the price, or value, of the bond itself).

Income seekers satisfied with current rates can hold their bonds to maturity and collect their interest payments with relatively little risk, albeit sacrificing any possible capital gains. Those who seek capital appreciation—and thus may want to trade in and out of the bond market as prices rise and fall—face greater risks but potentially greater rewards.

When interest rates are low, as they were when the U.S. Treasury's bellwether 30-year bond was yielding about 6.25 percent at the beginning of 1994, there's little hope of making significant money either from interest income or price appreciation. When rates are low, interest income will be modest. And low rates mean bond prices are already high (bond prices move inversely to interest rates), leaving little hope for capital appreciation.

In hindsight, interest rates had no place to go but up last year, and they did, nudged along by the Federal Reserve Board, which systematically pushed short-term rates higher in an effort to squelch any threat of inflation. As a result, bond prices fell, and bond returns (interest income plus capital appreciation) were among the worst in history, with the average taxable bond mutual fund, as calculated by Lipper Analytical Services, declining 3.7 percent.

By the beginning of this year, investors faced a much different environment. The Treasury's long bond was paying interest in the range of 7.5 to 8 percent, as were two-year, five-year, and 10-year Treasury notes. That tight range across the maturity spectrum isn't unprecedented, but it is unusual. A year ago, for example, two-year Treasuries yielded about 2 percentage points less than the 30-year bond.

In any event, the current yields are well above the 5 percent return that long bonds have averaged annually since 1926, and they are not too far removed from the 10.3 percent annual average return that stocks have posted since 1926. That means investors who are satisfied with returns near the level of the stock market and with virtually no risk can buy Treasury notes today and forget about market fluctuations until the notes mature.

CHART: GEORGIA MCDONALD

Investors willing to accept higher risks for even more stock-like returns may be able to do so by investing, in increasing order of risk, in agency bonds (such as those issued by the Government National Mortgage Association, or Ginnie Mae), in municipal bonds (which offer tax-free interest income), in high-grade corporate bonds, or in high-yield "junk" bonds. All are viable alternatives to Treasuries but introduce new variables to the risk equation, such as the credit-worthiness of the issuer.

A prudent strategy regardless of the type of bond, says David Wolf, a senior research analyst with Ryan Labs Inc., a New York City bond consulting firm, is to buy bonds that mature when the money being invested will be needed: five-year notes, for example, if the funds are being set aside for a child who will enter college in the year 2000.

Matching a bond's maturity to your needs makes sense if only because investing in bonds for capital appreciation is so hard to do. Speculators who try to capture quick profits by trading in and out of bonds are essentially trying to time the market, and history shows that to be a difficult task indeed.

For example, twice a year *The Wall Street Journal* asks about 40 leading economists to predict long-term interest rates for the coming six months. In only seven of the past 25 forecasts did those economists, as a group, correctly pick even the direction in which interest rates would move, let alone how much they would move, according to statistics compiled by Ryan Labs.

Investors who aren't buying bonds to fund a specific need ought to seek diversity in their bond portfolio. One way to do that is to build a "ladder" of bonds of incrementally longer duration, spreading risk across the entire spectrum of maturities. Building a diversified bond portfolio on your own, however, can require a considerable amount of cash—as much as $200,000, according to some investment pros—and can take a lot of work to maintain. The obvious solution is a bond mutual fund, where, for an investment of as little as a few thousand dollars, you can pool your money with other investors and have it managed by a professional.

Is it time to buy bonds? If returns near the 8 percent level meet your requirements, if you feel good about avoiding the risks of the stock market in at least part of your investment portfolio, and if you carefully select bonds that mature when you need them, the answer may well be yes. NB

*For a reprint of Small Business Financial Adviser, see Page 61. For a fax copy, see Page 26.*

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# Direct Line

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*By Meg Whittemore*

ENTREPRENEURSHIP

## The Status Of Women

I am a female business owner, and I need information on women entrepreneurs to present to my board of directors. Are there any organizations that can help me?
*R.H., Omaha, Neb.*


ILLUSTRATIONS: MARTHA [illegible]

The National Foundation for Women Business Owners recently published a report on women business owners. The title is *Credibility, Creativity, and Independence: The Greatest Challenges and Biggest Rewards of Business Ownership Among Women.*

The greatest challenges for women entrepreneurs involve being taken seriously, according to the report, while the greatest rewards come from within, particularly through gaining control of one's destiny.

The report is the second in a series of monographs sponsored by AT&T Corp. and the Metropolitan Life Insurance Co. The first report compares benefits offered by women entrepreneurs with those offered by men. Forthcoming reports will focus on women business owners in the international marketplace and the use of technology in women-owned businesses.

A copy of the report is available from the National Foundation for Women Business Owners for $29.95. Call (301) 495-4975 to order.

Another report you could find useful is *Women and Franchising: Some Preliminary Estimates,* written by marketing professors Rajiv Dant and Candida Brush of Boston University's School of Management and published by the university. Of the 2,394 franchise systems in North America examined for the report, only 7.4 percent had women presidents.

A lot of men cross over into businesses traditionally dominated by women, Brush says, but few women cross into fields traditionally dominated by men. "Many men franchise hair salons, but we don't see women opening auto-parts shops," she says. Overall, Brush says of franchising, "it is a man's world out there."

The report costs $20 and may be ordered by writing or calling the School of Management, Boston University, 621 Commonwealth Ave., Boston, Mass. 02215; (617) 353-4149. ■

MANAGING

## Help On The Way

I run a small but growing manufacturing business. I want to hire a management consultant but don't know how to go about it. Can you give me any suggestions?
*T.G., Indianapolis*

ACME Inc., the Association of Management Consulting Firms, a trade organization based in New York City, publishes a 36-page booklet titled *How to Select and Use Management Consultants.*

Included are tips on when to hire a management professional—and when not to; the kind of management consultant to hire; cost analyses; and outlining what you want the consultant to do.

The publication also has advice on what to expect from a consultant, checking references, implementing recommended programs, and measuring results.

The booklet costs $8 and is available from ACME Inc., 521 Fifth Ave., 35th Floor, New York, N.Y. 10175; (212) 697-9693. ■


MUSIC

## Tuning In

I own a small music store that sells pianos. I would like to offer my customers the added service of piano tuning. Where can I go to get information about this?
*F.G., Waldwick, N.J.*

Contact the Piano Technicians Guild, a national organization of more than 4,000 piano tuners, also known as piano technicians. The guild offers information on requirements for becoming a registered piano technician. Candidates must take a written examination given by the organization.

For more information, write the Piano Technicians Guild at 3930 Washington St., Kansas City, Mo. 64111; or call (816) 753-7747. ■

MARKETING

## Gray Matters

I am interested in starting a business aimed at consumers ages 45 to 65. Where can I go for ideas and help?
*P.N., Richmond, Va.*

"You must first understand the needs and wants of middle-aging baby boomers and other consumers age 45 and older before deciding on a business to start," says Jeff Ostroff, author of *Outstanding Business Opportunities in a Graying America,* a 16-page report on products and services needed by older consumers.

Ostroff, president of Over 40 Marketing, in Wilmington, Del., sees business opportunities in the growing interest among those over 40 in leisure activities, including singles events, companionship programs, fitness-oriented travel, and special-interest courses.

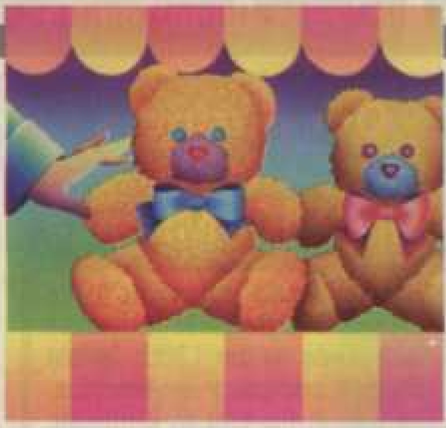
Another area of business opportunity is financial services, he says, because "many of today's prime-lifers worry about being financially secure in retirement." Among the businesses that can benefit from such interest in financial services are those that offer private pension plans, investment clubs and newsletters, and insurance for long-term care.

A copy of Ostroff's report costs $9.95 (or $11.40 in U.S. dollars for copies sent outside the United States). To order, send a check or money order to Over 40 Marketing, 114 Chatham Place, Suite 1N, Wilmington, Del. 19810. ■

RETAILING

## The Bear Facts

I want to start a retail business that sells only teddy bears. Where can I go for more information?
*U.I., Waterbury, Conn.*



Teddy bears represent one of the many niche retailing markets that are growing in popularity, according to the National Retail Federation, a trade group based in Washington, D.C.

*Teddy Bear and Friends*, a bimonthly magazine from Cumberland Publishing, Inc., in Harrisburg, Pa., covers the field. Topics include industry trends, manufacturing news, feature stories on those who make accessories and costumes for the teddy bears, and a comprehensive buyers' guide.

The publication also offers tips for collectors and information on where to purchase raw materials for teddy bear production. And each issue lists national and international trade shows featuring teddy bears. (In the February 1995 issue, for example, there were 37 shows listed in the U.S. for the first two months of the year, and 15 shows were scheduled in Belgium and the Netherlands during the same period.)

An annual subscription to *Teddy Bear and Friends* costs $17.95. To order, call 1-800-435-9610.

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*E.H., New York City*

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Included is a section on cultivating a social life and becoming involved in the small community where you live and work. The book also gives a step-by-step approach to translating urban skills into rural occupations. And the final section is a resource directory.

The book costs $19.95 and may be ordered from Communication Creativity, P.O. Box 909-NB, Buena Vista, Colo. 81211; 1-800-331-8355.

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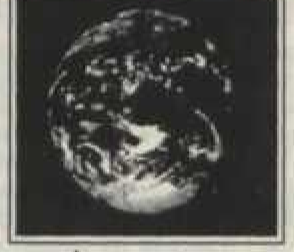

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# Where I Stand

## On Federal Regulation

**Background: Major efforts have begun in Congress to overhaul the way federal agencies formulate regulations. Some lawmakers are also pressing for a review of existing rules. See the related story on Page 42. These questions seek your views on regulatory reform.**

**Send the attached postage-paid response card. Or circle your answers below and fax this page to (202) 463-5636.**

### 1

**How would you characterize the requirements your company faces to comply with various federal regulations?**

1. Light
2. Manageable
3. Burdensome

### 2

**Which categories of federal regulations do you find to be onerous? (Circle all that apply.)**

1. Environmental
2. Workplace safety and health
3. Consumer product
4. Employment and civil rights

### 3

**How much do the costs of complying with various federal regulations add to your operating costs?**

1. 0 to 5 percent
2. 6 to 10 percent
3. 11 to 15 percent
4. 16 to 20 percent
5. More than 20 percent

### 4

**What has been the impact on your firm's employment as a result of complying with federal regulations?**

1. Had to hire additional workers
2. Provided overtime to some employees
3. Cut back hours of some workers
4. Eliminated jobs
5. No impact

### 5

**How would you rate the adequacy and timeliness of the technical assistance you receive from federal agencies in complying with their regulations?**

1. Excellent
2. Good
3. Average
4. Poor
5. No help at all

### 6

**To what extent do you have to comply with similar regulations from both federal and state agencies?**

1. A great deal
2. Somewhat
3. Not at all

**Send Your Response Today!**

POLL RESULTS

# Readers Like Contract With America

By overwhelming margins, respondents to the Where I Stand poll in the January *Nation's Business* support the budget reforms, tax rollbacks, and other major elements of the House Republicans' Contract With America.

Ninety-three percent said they support a balanced-budget amendment to the Constitution and line-item veto authority for the president. Ninety-one percent approve cutting the capital-gains tax, curbing regulation, and prohibiting unfunded mandates.

Some provisions of the Contract With America are still being considered by congressional committees, while others have been debated and approved on the floor of either the House or the Senate or both. (See Dateline: Washington, Page 8.)

"The agenda in the Contract, in many respects, is the Chamber's agenda," said Bruce Josten, senior vice president/membership policy of the U.S. Chamber of Commerce. "It's a commitment to the American people and largely reflects the views of business, as the results indicate. We stand foursquare behind the Contract."

Josten said the results mirrored earlier separate surveys by the Chamber and by House Republicans that showed broad support for major Contract proposals. "The Chamber is going to work actively to enact these measures," he added.

Josten noted that the Chamber has long advocated some of the Contract's major elements, such as a balanced-budget amendment, line-item veto, an end to unfunded mandates, and product-liability reform.

Nearly all Republican House candidates in the 1994 elections signed the Contract With America, and the GOP captured House control for the first time in 40 years.

Below are the complete results.

## THE CONTRACT

| | | |
|---|---|---|
| **The Fiscal Responsibility Act:** A balanced-budget/tax-limitation amendment and line-item veto power for the president. | Support<br>Oppose<br>Undecided | 93%<br>4<br>3 |
| **The Taking Back Our Streets Act:** Lengthen prison sentences; remove barriers to imposing and carrying out death sentences; and shift to prison construction the funds earmarked for social programs in the 1994 crime law. | Support<br>Oppose<br>Undecided | 78%<br>7<br>15 |
| **The Personal Responsibility Act:** Deny welfare benefits to unmarried mothers who are minors and to welfare mothers who have additional children; halt the growth of welfare programs; limit welfare eligibility; and impose work requirements for benefits. | Support<br>Oppose<br>Undecided | 91%<br>5<br>4 |
| **The Family Reinforcement Act:** Bolster enforcement of child support; provide tax incentives for adoption; strengthen parents' rights in their children's education; toughen penalties for sex offenses against children; and provide a $500 tax credit for the care of elderly parents or grandparents. | Support<br>Oppose<br>Undecided | 93%<br>3<br>4 |
| **The American Dream Restoration Act:** Provide a $500-per-child tax credit; repeal the "marriage penalty" in the tax code; and establish a new kind of individual retirement account for which contributions are taxable but earnings are tax-free. | Support<br>Oppose<br>Undecided | 84%<br>7<br>9 |
| **The National Security Restoration Act:** Prohibit United Nations' command of U.S. troops; increase defense spending; and renew U.S. commitment to a defense against enemy missiles. | Support<br>Oppose<br>Undecided | 65%<br>19<br>16 |
| **The Senior Citizens Fairness Act:** Raise the Social Security earnings limit; repeal the 1993 tax increase on Social Security benefits; and provide tax incentives for private long-term-care insurance. | Support<br>Oppose<br>Undecided | 78%<br>12<br>10 |
| **The Job Creation and Wage Enhancement Act:** Enact small-business incentives; cut and index the capital-gains tax; curb federal regulation; bar enactment of unfunded mandates; and compensate property owners for value losses caused by government limits on use. | Support<br>Oppose<br>Undecided | 91%<br>4<br>5 |
| **The Common Sense Legal Reform Act:** Limit punitive damages in civil lawsuits and reform product-liability laws. | Support<br>Oppose<br>Undecided | 95%<br>3<br>2 |
| **The Citizen Legislature Act:** Guarantee a floor vote on a proposed constitutional amendment to limit senators to two terms and House members to three to six terms. | Support<br>Oppose<br>Undecided | 80%<br>10<br>10 |

# Commentary

*The new Congress has moved quickly on unfunded mandates, correcting a long-standing abuse.*

*By Robert T. Gray*

## An Important Early Victory

Should the federal government have power to force increases in state and local taxes and in consumer prices?

The new Congress answered that question with a resounding "no" when it addressed the issue of unfunded mandates, an official designation that tends to obscure the high stakes involved for individual Americans.

Congress had long used such mandates to force the public and private sectors not only to take specific actions the legislators deemed important but also to pay the costs. That arrangement has enabled the federal lawmakers to claim political credit for results without having to trouble themselves with the matter of financing.

Indeed, such considerations as the practicality of the directives, compliance costs, and financial status of the affected parties have generally been secondary.

Says Sen. Dirk Kempthorne, R-Idaho, a former mayor of Boise and a leader of the move to end this particular legislative gambit: "Unfunded federal mandates are passed on as higher local taxes or reduced local services. Businesses pass their share of unfunded federal mandates on to consumers through higher costs."

Across the nation, governors, mayors, state and local legislators, school-board members, and other officials on the receiving end of unfunded mandates demanded change in a federal policy that excluded them from the decision-making process but forced them to pay the bills.

The demand for reform was bipartisan—leaders of the movement included Democratic Mayor Richard M. Daley of Chicago.

And no wonder. At a time when cities are desperately strapped for revenue, unfunded mandates drive their annual budgets up at least 12 percent, according to one study.

And the private sector has seen the impact of countless rules and regulations imposed by Congress on the smallest to the largest businesses. The problem became so severe that the nation's largest broad-based business organization, the U.S. Chamber of Commerce, made unfunded-mandate reform a top priority. Noting that business suffers doubly under such dictates—as taxpayers who must help pay higher costs imposed on state and local governments and as the direct targets of mandates—Chamber President Richard L. Lesher said, "We will commit all necessary time and resources to ensuring its passage early in this session."

PHOTO: ©BILL FITZ-PATRICK

**A former mayor,** *Sen. Dirk Kempthorne, R-Idaho, was a leader in the effort to restrict unfunded mandates.*

As the leading representative of business in the reform drive, the Chamber insisted from the outset—and actually wrote the applicable legislative language—that the private sector be covered in reform efforts.

Kempthorne recognized that key contribution, made on behalf of all business, when he wrote to the Chamber after passage of his bill: "I am grateful for the Chamber's help in writing the private-sector provisions included in the bill." The senator said that the organization's assistance in writing the measure and its strong endorsement of the final product "were key reasons why the bill attracted 62 [senators as] cosponsors. . . . The Senate passage of S.1 shows the U.S. Chamber of Commerce is an effective force in Washington."

As approved by both houses, the new rules on mandates would require Congress to determine the cost of compliance with federal laws applying to the public and private sectors. If the expected cost is more than $50 million for state or local governments, Congress would have to provide full funding. If a proposed mandate fails to include a cost estimate and funding, it could be ruled out of order. The Congressional Budget Office would develop both immediate and long-range cost implications in consultation with state and local officials.

Under the Senate bill, any measure that would impose a cost of more than $200 million on the private sector would have to include a CBO analysis of its effects on the general economy, productivity, jobs, and U.S. trade. Any legislation lacking such an analysis could not come to a vote.

The House set a $50 million threshold for the private-sector analysis, and that was among the differences that the House and the Senate were working out in drafting a single bill for both houses to endorse.

The next stop is the desk of President Clinton. Although the mandate problem took root and flourished while his fellow Democrats controlled Congress, he has indicated that he has read the 1994 election returns closely and is receptive to the mandate-reform bill.

The public- and private-sector leaders who started this reform battle when the odds were strongly against them can be proud of this ultimate victory. NB

*Robert T. Gray recently retired after 26 years with* Nation's Business, *13 as editor.*

# Editorial

## Gingrich: Chamber's Agenda "Will Have An Impact"

In a refreshing display of how a democratic political system *should* work, members of the new Republican majorities in Congress have begun redeeming the pledges made to the people who elected them.

Because of the truly revolutionary nature of this undertaking, full implementation of these commitments is a complex process. After all, these legislators have promised nothing less than a reversal of more than 60 years of government expansion driven by escalating taxes, spending, regulation, and restrictions on personal and economic freedom.

The House of Representatives is meeting this challenge through its Contract With America. The Senate has complementary goals in its plan for the new political era. President Clinton has developed his own legislative recommendations.

In addition, the chief executive and the lawmakers should consider the sharply focused recommendations of a comprehensive program developed in the private sector. It is the National Business Agenda, which lists the 1995-96 policy goals of the broadly based membership of the U.S. Chamber of Commerce, the nation's largest business federation.

In presenting the National Business Agenda to House Speaker Newt Gingrich, Senior Vice President Bruce Josten of the U.S. Chamber noted that the agenda was in major ways "a mirror image of the Contract With America." Gingrich received the document at a Chamber-sponsored town meeting broadcast from the business organization's Washington headquarters and carried via satellite and downlinks to more than 3,000 sites throughout the country, including hundreds of state and local chambers of commerce.

The speaker responded: "I want everybody in America to see [the Chamber agenda]. . . . It will have an impact because we work very, very closely with the Chamber."

And, Gingrich added, "I work very closely with my own chambers back home in Georgia."

The National Business Agenda calls for spending restraint, tax relief, an end to federal laws that impose costs on the private sector and/or state and local governments (see opposite page); greater flexibility in complying with health, safety, and environmental rules; the use of modern science and risk assessment in setting standards; fewer paperwork requirements; and the safeguarding of property rights.

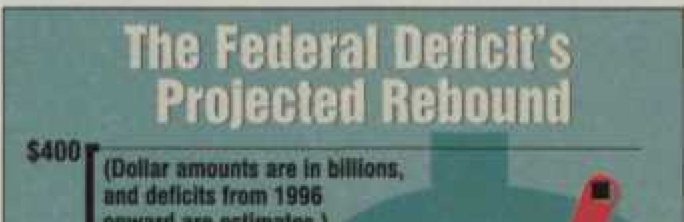


CHART: KATHLEEN VETTER

**Soaring deficits** *projected into the 21st century underscore the need for a balanced-budget amendment to the Constitution.*

Top economic-policy goals include a balanced-budget amendment to the Constitution, the need for which is starkly apparent from the accompanying chart showing deficit trends; small-business tax relief and tax simplification; consideration of the economic impact of legislation and regulation; and other budget reforms, such as line-item veto authority for the president.

Continued opposition to mandated health-care coverage of employees topped the list of health-care issues. Security of networks was the chief concern on telecommunications issues, and opposition to excessive transportation taxes ranked highest in that field.

Chamber President Richard L. Lesher noted that the views of the organization's members track very closely with the congressional election results in that both "represent a stunning affirmation of the public's desire for pro-growth policies."

Because of its grass-roots origin, its authoritative perspective on major business issues, and its priority rankings, the National Business Agenda will, as Speaker Gingrich says, have an impact. NB


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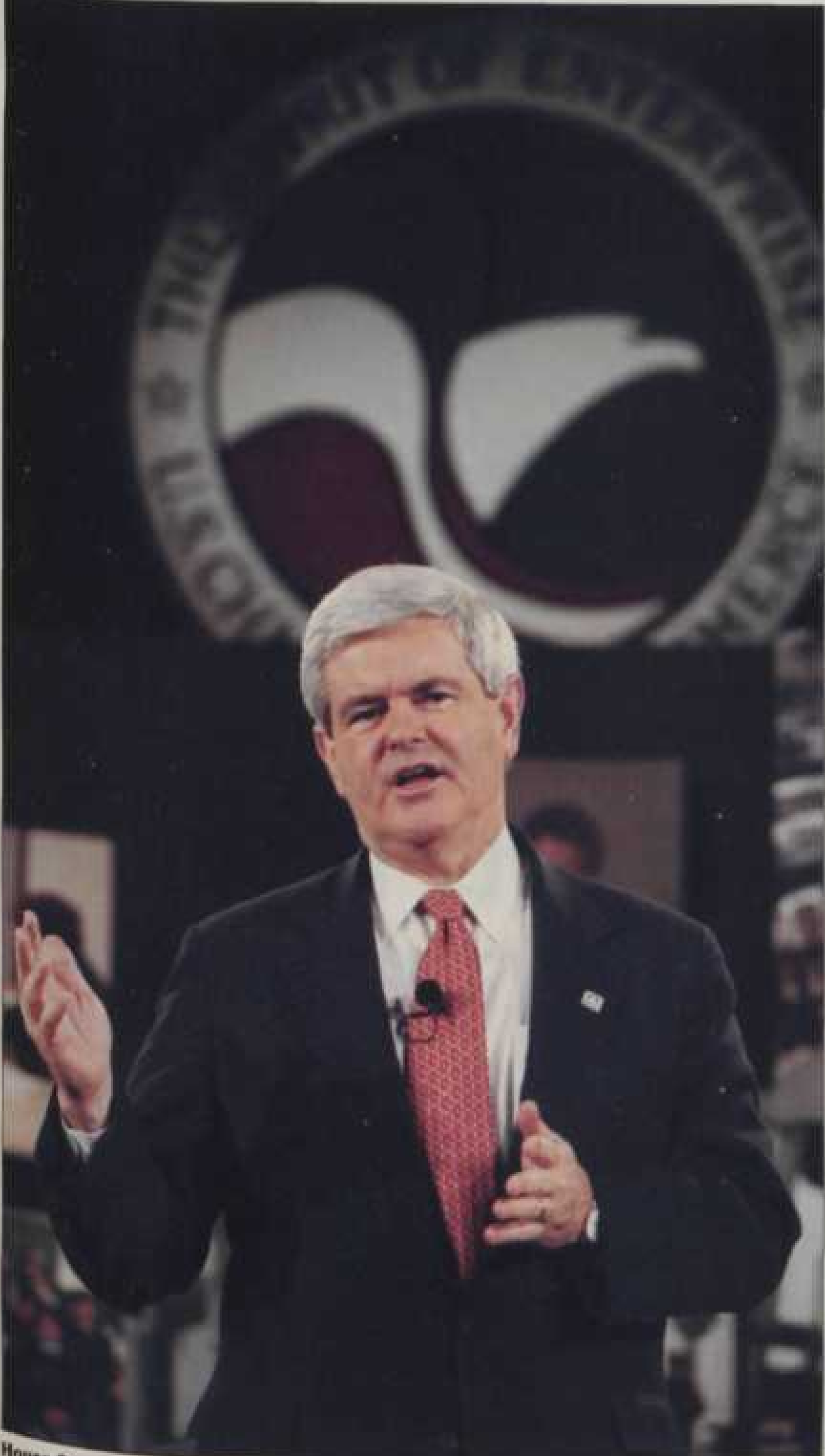
# The Business Advocate

SUPPLEMENT TO Nation's Business MARCH 1995

U.S. Chamber of Commerce

House Speaker Newt Gingrich, speaking at a town-hall-type meeting at the U.S. Chamber, calls on business people to provide renewed support for the Contract With America.

# Gingrich Urges Contract Support

House Speaker Newt Gingrich urged renewed support for the House Republicans' Contract With America at a national satellite town hall meeting from the U.S. Chamber of Commerce headquarters in Washington.

The Georgia Republican told business people at more than 3,000 sites to press their senators and representatives to approve legislation based on the 10-point Contract. His Feb. 7 plea and report on progress on the

*Continued on Page 4A*

## *Chamber Victories In Congress*

## Balanced Budget

# Fight On Amendment In Senate


**R. Bruce Josten, senior vice president for membership policy, voices the U.S. Chamber's support for a balanced-budget amendment at a Capitol Hill press conference. Among the House lawmakers attending the event were, left to right, Reps. Walter B. Jones Jr., R-N.C., Roscoe G. Bartlett, R-Md., Andrea Seastrand, R-Calif., Helen Chenoweth, R-Idaho, and Joe L. Barton, R-Texas.**

The U.S. Chamber of Commerce, at press time, was urging the Senate to pass a measure calling for a balanced-budget amendment to the Constitution. The Chamber already had won a significant victory with the recent House passage of an identical measure.

"Call your senators immediately, and urge them to pass House Joint Resolution 1," Lonnie P. Taylor, the Chamber's vice president for congressional relations, urged the organization's members. Senate approval would send the amendment to the states for ratification.

The Senate started floor debate on the resolution Jan. 30 and was expected to vote on it in late February.

The House passed the measure Jan. 26 on a 300-132 vote. Amendments to the Constitution must be approved by two-thirds of each house—290 in the House, 67 in the Senate—and by 38 states. The president does not take action on constitutional amendments.

The Chamber was focusing attention on 15 senators who were uncommitted at press time about their position on the measure. They were Sens. Ted Stevens,

## Line-Item Veto

# Chamber Effort Shifts To Senate

The U.S. Chamber of Commerce won Round One of its fight for a line-item veto in the House, but the outcome of Round Two in the Senate was uncertain.

The House voted 294-134 on Feb. 6 to give the president authority to veto specific spending items or targeted tax breaks in appropriations bills while approving the overall legislation—one of the provisions in the House Republicans' Contract With America.

**The U.S. Chamber's Robert D. Barr testified in favor of a line-item veto.**

The measure, H.R. 2, faces considerable opposition in the Senate, however, where even some Republicans are wary of ceding power to the executive branch. The Chamber supports S. 4, a Senate line-item veto bill sponsored by Majority Leader Bob Dole, R-Kan., and Sen. John McCain, R-Ariz.

The Dole-McCain bill and the House-passed measure would allow the president to eliminate or reduce individual spending provisions in large appropriations bills or to strike out tax breaks that would benefit fewer than 100 businesses or individuals.

Congress could reinstate any items eliminated or reduced by passing a bill to do so. The president could veto that bill, but Congress could override the veto with a two-thirds vote in each house.

Supporters of the line-item veto point to the annual addition of money by some lawmakers for pet projects in their states or districts. The president is then forced either to approve the bills with the added "pork-barrel" spending or to veto legislation necessary to keep the government and its agencies in business. That latter option is rarely exercised.

Said Robert D. Barr, the Chamber's deputy chief economist, in testimony on Jan. 24 before the Senate Judiciary Subcommittee on the Constitution, a line-item veto coupled with a balanced-budget amendment to the Constitution "can help us restrain the government's fiscal appetite."

The Senate was expected to consider its line-item veto bill sometime in March.

R-Alaska, Dianne Feinstein, D-Calif., Joseph R. Biden Jr., D-Del., Sam Nunn, D-Ga., Tom Harkin, D-Iowa, Wendell H. Ford, D-Ky., John B. Breaux, D-La., J. James Exon, D-Neb., Jeff Bingaman, D-N.M., North Dakota Democrats Kent Conrad and Byron L. Dorgan, John Glenn, D-Ohio, Mark Hatfield, R-Ore., Claiborne Pell, D-R.I., and Minority Leader Thomas A. Daschle, D-S.D.

Feinstein, Nunn, Ford, Breaux, Exon, Bingaman, Dorgan, and Daschle voted in favor of a similar resolution last March. It failed by just four votes, 63-37.

The amendment would require that Congress adopt an annual budget in which spending does not exceed revenues by the year 2002, or two years after the amendment is ratified by the states, whichever is later.

Congress could pass an unbalanced budget if three-fifths of each house voted to waive the balanced-budget requirement. A three-fifths vote would also be required to raise the debt ceiling.

The amendment would allow Congress to raise taxes only by a constitutional majority vote—218 in the House and 51 in the Senate—rather than the current simple majority vote. (A simple majority is one more than half the members present and voting.)

*If the Senate has not passed the balanced-budget amendment by the time you receive this issue of* The Business Advocate, *please call your senators immediately and urge them to vote in favor of House Joint Resolution 1. Also call the 15 senators listed above and urge them to support the resolution. Dial the Capitol Hill switchboard at (202) 224-3121.*

**Trade**

## NAFTA Conference Set In Houston

A conference on doing business under the North American Free Trade Agreement and on fostering business contacts in the U.S., Mexico, and Canada will be held March 27-29 in Houston.

The Fourth Trilateral Conference of Chambers of Commerce of North America is sponsored by the U.S. Chamber of Commerce, the Canadian Chamber of Commerce, the U.S. Hispanic Chamber of Commerce, and two Mexican business organizations—Concanaco and Concamin.

For more information, call the Greater Houston Partnership at 1-800-866-2382.

## ■ Town Hall Meeting

# Support For Contract

**House Speaker Newt Gingrich, center, displays the U.S. Chamber's National Business Agenda at a Feb. 7 town hall meeting at the business federation's Washington headquarters. Richard L. Lesher, Chamber president, right, and R. Bruce Josten, senior vice president for membership policy, presented the agenda to the Georgia Republican at the televised event.**

*Continued from Page 1A*

Contract came as action on some legislation outlined in the document had begun to slow, particularly in the Senate.

"We need the business community's support," said Gingrich, who noted his longtime association with the Chamber and its president, Richard L. Lesher. "We are really blessed to have friends and allies and supporters who are willing to talk with us and share ideas."

A recent poll of *Nation's Business* readers found overwhelming support for virtually every item in the Contract among business. R. Bruce Josten, senior vice president for membership policy for the Chamber, said at the event: "We stand foursquare behind [Gingrich] to help enact the Contract."

In addition to being seen at downlink sites across the country, including hundreds of state and local chambers of commerce, the Chamber broadcast was carried by the New Jersey Cable Television Network and TCI Cablevision of Los Angeles County, Calif. The New Jersey cable network has 1.2 million subscribers; TCI has about 35,000 subscribers. The Chamber estimates that thousands of people viewed the program.

**Chamber board member Carol Ball testified in support of the House Republicans' Contract With America at a House Ways and Means Committee hearing on Jan 17.**

Major television networks, including Cable News Network (CNN), ABC, CBS, and NBC; daily newspapers, such as *The New York Times* and *The Washington Post*; and wire services covered the event.

In addition to remarks by Gingrich and the Chamber's Lesher, the program featured a question-and-answer session with the House speaker, and, separately, with three House freshmen. The three—Reps. David M. McIntosh of Indiana, Sue Myrick of North Carolina, and J.C. Watts of Oklahoma—were among the 73 first-year Republican House members elected in the GOP's 1994 victories.

## ■ Ways And Means

# Chamber Backs Tax Changes

The U.S. Chamber of Commerce is urging Congress to adopt the tax provisions in the House Republicans' Contract With America and to undertake a "comprehensive review" of federal tax laws.

William T. Sinclair, senior tax counsel and director of tax policy for the Chamber, testified on the tax measures Jan. 24 before the House Ways and Means Committee.

He said the Chamber supports the Contract's proposals to reform the capital-gains and estate-tax laws, the neutral-cost recovery system, the taxation of Social Security benefits, and the treatment of capital assets and equipment.

In addition, the business federation urged Congress to clarify the definition of a home office for tax purposes.

"The Contract will play a key role in reducing the tax burden on Americans," said Sinclair. However, he said, a comprehensive review of the federal tax laws is also needed.

Among other tax-law changes, the Chamber urged the Ways and Means Committee to reform the alternative minimum tax (AMT), which requires firms to calculate their taxes without taking any tax credits available to them. The AMT ensures that all companies pay some tax but, according to the Chamber, also stifles investments in plant, equipment, and new processes.

The Chamber also urged simplification of the tax rules for S corporations, permanent extension of the research-and-experimentation tax credit, and extension of a tax rule allowing costs incurred for environmental cleanup to be treated as ordinary and necessary business expenses, not capital expenditures that must be depreciated over a number of years.

**William T. Sinclair, senior tax counsel and director of tax policy for the U.S. Chamber, testified before the Ways and Means Committee.**

# Urged

The GOP Contract was signed in September by more than 300 House candidates and has been credited with helping Republicans to capture the House for the first time since 1954.

Before taking questions from viewers at the downlink sites, the House speaker was presented with the U.S. Chamber's National Business Agenda and responses from *Nation's Business* readers to a poll on the Contract With America. (See the poll results on Page 69 of the March *Nation's Business*.)

The business agenda, which outlines the U.S. Chamber's top legislative priorities, was formulated through a poll of the business federation's 220,000 members. It closely follows the Contract With America, noted Josten.

Added Lesher, "We stand ready, willing, and able to fully mobilize our grassroots organization and its communications resources to translate this public vision [of the Contract and the Chamber's business agenda] into reality."

Holding the Chamber agenda for the television cameras, Gingrich said, "I want everybody in America to see it because it will have an impact because [Republicans] work very, very closely with the Chamber."

**Gov. John Engler of Michigan spoke by phone with House Speaker Gingrich during the question-and-answer session of the town hall meeting on the Contract With America.**

He urged the audience, which included several hundred business leaders at the Chamber's headquarters, to put pressure on House members to support the Contract and to help Majority Leader Bob Dole, R-Kan., in the Senate, where parliamentary rules make it harder to pass legislation.

Among the provisions of the Contract already approved by the House are measures to give the president power to strike individual line items in spending bills, to send to the states a constitutional amendment requiring a balanced federal budget, and to cut government-required paperwork.

Also passed by the House are measures to limit Congress' ability to impose unfunded mandates on the public and private sectors and to improve the nation's crime-fighting system. Most of the other elements of the Contract have been, or soon will be, cleared by various House committees and are awaiting approval by the full House.

The Senate has passed an unfunded-mandates bill and, at press time, was debating a balanced-budget constitutional amendment. A vote on the amendment was expected in mid-February.

Michigan Gov. John Engler, in a call to Gingrich during the town meeting, pledged that his state would be the first to ratify the balanced-budget amendment, which must be approved by 38 states after it is approved by Congress.

**R. Bruce Josten, right, the Chamber's senior vice president for membership policy, and Chamber President Richard L. Lesher, second from the left, talk with, left to right, House Republican freshmen Sue Myrick of North Carolina, J.C. Watts of Oklahoma, and David M. McIntosh of Indiana before a town hall meeting on the Contract With America held at the Chamber.**

■ Victory

# Chamber Wins On Mandates

Columbus, Ohio, Mayor Greg Lashutka, left, and Jerry Abramson, mayor of Louisville, Ky., spoke to Chamber policy committees about the need for unfunded-mandates legislation.

The U.S. Chamber of Commerce scored one of its most important victories in recent years with passage of legislation that would limit Congress' ability to impose unfunded mandates on the public and private sectors.

The Senate bill, sponsored by Sen. Dirk Kempthorne, R-Idaho, was approved 86-10 on Jan. 27. The House passed its version on Feb. 1 by 360-74. The House measure was sponsored by Reps. William F. Clinger Jr., R-Pa., Rob Portman, R-Ohio, Thomas M. Davis III, R-Va., and Gary A. Condit, D-Calif.

A House-Senate conference was expected to resolve differences in the measures and send the consensus bill to President Clinton by late February or early March. In his State of the Union speech, Clinton said he would sign "reasonable" unfunded mandates legislation into law.

Both the House and Senate legislation would require the Congressional Budget Office to conduct a cost-impact analysis of any legislative proposal that would cost state or local governments more than $50 million. The Senate bill would require a similar analysis for mandates whose estimated cost to the private sector would exceed $200 million; in the House bill, the private-sector analysis would be required for estimated costs above $50 million.

For both bills, if no such analysis were completed, any member of Congress could object to the proposal and prevent its implementation. The objection could be overcome if a majority voted to overrule it.

An objection also could be made to a proposal costing the public sector more than $50 million if the measure failed to include federal funding to pay for it.

Both bills also include provisions to require federal agencies to conduct cost-impact analyses on regulations that would cost the public or private sector more than $100 million. The House legislation contains a section to allow federal courts to enforce the provision; the Senate bill prohibits such judicial review.

In 1993 and 1994 and again this year, the Chamber worked with Kempthorne and other lawmakers to win support for the legislation. Kempthorne had to deal firsthand with such mandates when he was mayor of Boise, Idaho.

Support for the provision relieving state and local governments from unfunded mandates came from groups such as the National Governors Association and the U.S. Conference of Mayors. The U.S. Chamber led the efforts for private-sector relief and drafted the private-sector language for the legislation.

■ Capitol Hill

# Regulatory Relief Urged

The U.S. Chamber of Commerce is urging the new Republican-controlled Congress to roll back regulations and reform the process by which federal rules are made.

By early February, the Chamber had testified four times before congressional committees to urge regulatory relief.

Most recently, Chamber President Richard L. Lesher told the Senate Governmental Affairs Committee that America's regulatory system must be made much more "conducive to economic growth and job creation."

He noted in his Feb. 8 testimony that such reform is among the Chamber's top priorities.

Chamber board members testified recently on measures to reauthorize and strengthen the Regulatory Flexibility Act (RFA) and the Paperwork Reduction Act. They also testified on a bill to require agencies to conduct analyses of the costs and benefits of proposed regulations and to assess the relative risks to human health and to the environment of activities or products to be regulated.

The RFA requires federal agencies to examine a proposed rule's potential impact on small business and to rewrite the rule if it would have an adverse effect on firms.

Reauthorization legislation pending in the House would allow the federal courts to enforce the statute, a concept long supported by the Chamber. (See the story on the paperwork-reduction testimony on Page 12A.)

Chamber President Richard L. Lesher testified on regulatory reform before the Senate Governmental Affairs Committee.

In other regulation-related activity, a Chamber task force on regulation held a symposium on regulatory risk assessment and launched a "Campaign for Regulatory Efficiency" to generate grass-roots support for reform.

The Chamber is also serving on the executive committee of Project Relief, a group of 300 businesses, individuals, and associations—formed with the help of House Majority Whip Tom DeLay, R-Texas—to help pass the regulatory reform provisions in the Contract With America and similar measures pending in the Senate.

The Senate and House were expected to consider comprehensive regulatory reform bills in late February.

# GAIN UPDATE

GRASSROOTS ACTION INFORMATION NETWORK

U.S. Chamber of Commerce Federation

# Chamber Pushes Consolidation Of Training Programs

*Government Urged To Make Programs More Efficient And Effective.*

The U.S. Chamber of Commerce is supporting moves to restructure federal employment and training programs, which are expected to receive increasing congressional attention as the legislative session advances.

The Chamber's goal is to ensure that federal funds allocated for employment and training programs are spent as effectively as possible. Effective programs could ultimately help produce flexible, highly skilled workers who could enable businesses to compete better in domestic and global marketplaces.

As part of an overhaul of federal programs, the Chamber advocates business involvement in all phases of a restructured system's design and implementation; state and local flexibility in consolidating training programs; and local competition by allowing the private sector, as well as government, to provide training and employment services. However, the Chamber opposes any tax or new federal mandates to finance changes in the system.

"The need for restructuring is clear," says Jill Scheldrup, state and local manager for the Chamber's Center for Workforce Preparation. "America's education, employment, and training system is characterized by a duplicative, fragmented, and confusing allocation of responsibilities among numerous federal and state government agencies, the private sector, education institutions, and community organizations."

According to the U.S. General Accounting Office, the federal government oversees 154 separate job-training programs, administered by 14 different agencies at an annual cost to taxpayers of nearly $25 billion. Meanwhile, growing numbers of workers are becoming permanently displaced through structural changes under way in business and the government. This trend has accelerated the typical displacement problem that results from cyclical changes in the economy.

Several efforts are under way to restructure federal employment and training programs. In 1994, the Clinton administration introduced the Reemployment Act (REA), which was designed to make the existing unemployment system more responsive to the re-employment needs of workers who have been laid off permanently. A key component would have consolidated six employment and training programs administered by the U.S. Department of Labor.

Although goals of the REA received some support, lawmakers in both the House and the Senate preferred to go a step further. They wanted legislation that would identify a means to restructure and consolidate the maze of education, employment, and training programs across all federal agencies.

Congressional interest in the consolidation issue remains strong.

To help address inadequacies within the training system, late last year President Clinton unveiled the Middle Class Bill of Rights. A major goal of this proposal is to provide middle-class citizens with the means to pursue education and training.

In addition to tuition tax deductions for families making up to $120,000 per year, Clinton proposes "skill grants" of up to $2,650 a year for two years. Low-income and unemployed persons would be eligible for the grants, which could be used as the individuals choose for learning new skills.

House and Senate leaders are working on their own proposals for revamping federal education and training programs.

In January, Sen. Nancy Landon Kassebaum, R-Kan., chairman of the Senate Labor and Human Resources Committee, conducted a series of hearings on how federal training programs might be restructured to serve workers more effectively. Kassebaum was expected to introduce legislation in February that reflects findings from the hearings.

Meanwhile, she has reintroduced bipartisan legislation to overhaul federal job-training programs and turn primary responsibility for them over to the states. The Job Training Consolidation Act of 1995 would grant broad waivers to allow states and localities maximum flexibility to coordinate—and

## How You Can Join GAIN

**The Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, U.S. Chamber specialists on legislative and regulatory issues provide activist business people with the timely and thorough information they need to urge their members of Congress to cast pro-enterprise votes.**

**For more information on how to become a member of this network, call (202) 463-5604.**

tailor to their unique needs—the largest federal programs at the local level.

In the House, Rep. William F. Goodling, R-Pa., chairman of the House Economic and Educational Opportunities Committee (formerly Education and Labor), held hearings in January on the federal role in work-force preparation. Goodling is also expected to introduce legislation this year to

**"The need for restructuring [employment and training programs] is clear."**

**—U.S. Chamber's Jill Scheldrup**

consolidate federal education, employment, and training programs.

For the consolidation of federal programs to be effective, both prospective and current workers must still be expected to meet world-class academic and occupational-skill standards, says the Chamber's Scheldrup. Last year, the Chamber worked with Congress to pass the Goals 2000: Educate America Act, which includes provisions to facilitate the development of such standards.

The Chamber also advocates the creation of school-to-work transition programs as a way to provide students with meaningful work experience before they graduate from high school. This spring, the Chamber's Center for Workforce Preparation will launch a multiyear effort to help local communities develop school-to-work transition programs.

## Chamber Lays Groundwork To Protect Pension System

The U.S. Chamber of Commerce has organized a group of business associations to persuade Congress to pass legislation protecting the private pension system.

The Washington-based group, called the Retirement Income Network, plans a congressional education campaign, including a white paper explaining pension issues, congressional staff briefings, and a coordinated program of Capitol Hill visits throughout the year.

The group also plans to be active on specific issues such as pension-law simplification and federal accounting for retirement-plan tax incentives.

Already the group has come out in support of similar House and Senate bills (H.R. 394 and S. 44) that would prohibit states from taxing the pension benefits of former state residents. The bills were introduced in the House by Rep. Barbara Vucanovich, R-Nev., and in the Senate by Sen. Harry Reid, D-Nev.

While pension issues are not high on the congressional agenda, retirement-policy analysts know it cannot be long before pensions become a major issue.

"Last year, with health care, we saw what can happen when a problem is dubbed a crisis and lawmakers scramble to respond. The Chamber wants to address the issue of retirement-income security before it becomes a crisis so that careful study and deliberation precede legislative action," says Lisa Sprague, manager of employee-benefits policy for the Chamber.

Chamber efforts will focus on education, identifying issues, suggesting solutions, and, most important, Sprague says, fostering support for employer-sponsored plans. " 'Protect the private pension system!' is a rallying cry in which we want members of Congress to join," she adds.

The Chamber has a long history of involvement in the nation's pension policy. Topping members' concerns today is the need for action to undo some of the damage wrought by more than a decade of continual changes in pension law and the staggering complexity of them.

Mounting concern over the long-term solvency of the Social Security trust fund has focused attention on all the elements of retirement-income security. Less constructively, the search for revenue sources also points toward the private pension system and its nearly $3 trillion in trust-fund assets.

The model for retirement income traditionally has been described as the "three-legged stool" of Social Security, employer-provided pensions, and individual savings. Says Sprague: "It does not take great technical knowledge to figure out which currently is the strongest leg."

Chamber staff members have already shared with key members of Congress the business federation's own pension-simplification proposal and will work with them to see it enacted. But this cannot be accomplished, Sprague notes, without ensuring that more members of Congress understand what is involved and at stake in the private pension system.

The basic message to legislators is that employer-sponsored plans are important and should be encouraged. They foster individual income security while simultaneously increasing national savings and providing investment funds that spur economic growth.

## Congress Urged To Keep The "Trust" In Transportation Trust Funds

Putting the "trust" back in the federal transportation trust funds for the nation's highways, airports, and waterways is a major 1995 goal of the U.S. Chamber of Commerce.

The federal government collects more than $22 billion a year for the trust funds—primarily from business. It does so through direct user fees, such as the gasoline tax and the airline ticket tax. When Congress established the trust funds and user fees, it had an explicit goal in mind—to finance transportation improvements.

Over the past several decades, however, the trust funds have been included in the unified federal budget and have been treated for budgetary purposes the same as general tax revenues. This has allowed the trust fund balances to grow and be used to mask the budget deficit. Like general revenue funds, the trust funds have also been subject to budget cuts and spending caps.

Bob Parija, manager of transportation policy for the Chamber, says that "as a result, the American public has a false picture of the true size of the federal deficit. This budget gimmickry continues to erode federal transportation investments that benefit the U.S. economy."

Another problem is that the federal highway user-fee mechanism has been used in recent years to raise general

**Separating the trust funds from the budget is vital to ensure that the fees collected are used to address transportation needs.**

**—U.S. Chamber's Bob Parija**

revenue for deficit reduction—more than $20 billion since 1990. This has forced American travelers and businesses to pay a disproportionate share of deficit reduction, says Parija.

Meanwhile, more than $200 billion in airport, highway, mass transit, and waterway capital needs identified by the U.S. Department of Transportation remain unfunded. Separating the trust funds from the budget is vital, Parija says, to ensure that the funds collected are used to address the identified needs.

According to the Chamber, Congress now has a historic opportunity to remove the transportation trust funds from the federal budget. Such action will:

- Lead to a more truthful accounting of the size of the deficit.
- Make a clear budgetary distinction between federal investments in transportation infrastructure and the day-to-day spending of government.
- Eliminate the budgetary incentives that discourage full investment of transportation user fees.
- Facilitate the development of a transportation system that will enhance American mobility and competitiveness while creating more than 10,000 direct jobs per $1 billion invested annually in transportation construction.

The Chamber is part of the Alliance for Truth in Transportation Budgeting, a broad-based coalition working closely with Rep. Bud Shuster, R-Pa., chairman of the House Transportation and Infrastructure Committee (formerly the Public Works and Transportation Committee), to find a legislative solution.

Shuster introduced legislation (H.R. 842) on Feb. 8 to take the transportation trust funds "off budget."

*Contact your senators and representative, and let them know this issue can dramatically impact the infrastructure that business and citizens depend on. Ask them to support removing the transportation trust funds from the federal budget. Dial the Senate switchboard at (202) 224-3121 and the House switchboard at (202) 225-3121; or write your lawmakers at the U.S. Senate, Washington, D.C. 20510, and the U.S. House of Representatives, Washington, D.C. 20515. For more information, call Bob Parija at (202) 463-5754.*

## New Farm Bill Should Be Growth-Oriented To Boost U.S. Exports, Chamber Says

Congress and the Clinton administration should write a growth-oriented farm bill this year that helps U.S. food and agriculture businesses capture newly emerging export markets, says the U.S. Chamber of Commerce.

The new bill would replace the 1990 farm law, which expires this year.

The Uruguay Round global trade pact—under the General Agreement on Tariffs and Trade (GATT)—and the North American Free Trade Agreement (NAFTA) among the U.S., Canada, and Mexico give U.S. farmers and food companies access to huge, previously closed markets.

New markets are also emerging as a result of the worldwide trend toward capitalism and market-based economic reforms, which is spurring a surge in family income growth, especially in Asia and Latin America. Higher income translates into better diets in which animal protein and fresh fruits and vegetables are replacing starch-based diets. This shift is creating new markets for U.S. table-ready food exports and feed grains for building livestock industries.

At the same time, many emerging economies—India and China, for example—lack the arable land to feed their enormous populations' growing appetite. The surge of farm and food exports to these countries represents "the greatest farming opportunity in history," according to Dennis Avery, a former State Department agricultural expert who is now with the Hudson Institute, a Washington public-policy research organization.

Farm and food goods already represent the nation's largest export sector, with shipments expected to reach $43 billion this year. Beyond that, says Stuart Hardy, manager of the Chamber's energy, food, and natural resources policy division, exports are "the engine of future growth" for the American farm and food sector, which employs 21 million workers and generates 16 percent of total U.S. income.

With only limited food and farm sales growth expected in the domestic market, capitalizing on these new export opportunities is vital, says Hardy.

Recent farm bills have allowed foreign competitors to capture growing markets worldwide by limiting U.S. domestic production, and thus exports. The new five-year legislation to be written, Hardy says, should help reverse that trend by spurring crop production and encouraging exports. It will have the potential to make the U.S. the major supplier of food and farm products to millions of consumers worldwide who are seeking to improve their diets.

The Chamber is participating in a newly formed Coalition for a Competitive Food and Agricultural System with a broad-based group of food, farm, agribusiness, and transportation groups and companies.

"We want government out of the business of idling good cropland and influencing planting decisions," says Hardy. "Farmers, rather than government, belong in the tractor seat because market forces do a better job of rewarding efficiency, encouraging productivity, managing risks, and making investment decisions."

Much of the current debate about farm policy has focused

on the cost of subsidy payments to taxpayers—$10.3 billion in 1994. But the real problem with "supply management" policies is the indirect costs to farmers and all other links in the food chain of industries, says the Chamber's Hardy.

Since the Great Depression, the federal government has attempted to stabilize farm income by propping up major crop prices through managing the size or supply of milk and

**Recent farm bills have allowed foreign competitors to capture growing markets worldwide by limiting U.S. domestic production, and thus exports.**

**—U.S. Chamber's Stuart Hardy**

major field crops: wheat, corn, feed grains, soybeans, cotton, and rice.

That approach has been ineffective and counter-productive as modern agriculture has become increasingly integrated into the total food system and global markets, Hardy says. Cutbacks in U.S. acreage are immediately countered by foreign competitors with an expansion of foreign cropland. Any industry is severely disadvantaged when it operates well below its productive capacity.

This is especially true of U.S. agriculture, whose competitive edge is its highly productive cropland and its handling and distribution network.

During the past decade, government programs have taken out of production an average of 60 million acres annually—15 percent of total cropland—in a failed attempt to manipulate prices by limiting supplies. During the same period, world demand for grains grew 18 percent, and world demand for oilseed crops grew by 28 percent, but U.S. production levels were flat, and foreign growers captured additional market share at U.S. expense.

Farmers receive government payments for the acres they idle, but many recent studies show they would be better off farming—rather than idling—productive land.

One recent study for the National Grain and Feed Foundation by Abel, Daft and Earley, an agricultural consulting firm, shows that returning idled land to production and giving growers more freedom to make planting decisions based on the market would increase annual net farm income by $4 billion.

Other links in the food chain, such as grain elevators, farm suppliers, millers, and processors, would also benefit by $28.9 billion annually from such policy changes. And 225,000 new jobs would be created in rural America.

The Chamber is urging Congress and the administration to consider these factors closely as they rewrite the expiring 1990 farm law. Doing so could help America outshine its competitors.

The U.S. has some of the best cropland on earth, ample water, good climate, and the most skilled farm managers. Moreover, the U.S. has the best technology and the world's most efficient infrastructure to store, transport, process, and deliver products to foreign customers at the least cost. These assets help position the U.S. food and agriculture system well for capturing new markets.

## Congress Considers Rewriting Paperwork Reduction Act

A decade and a half after the Paperwork Reduction Act of 1980 was enacted, Americans still spend more than 6.8 billion hours every year filling out federal forms and complying with paperwork regulations. That, says the U.S. Chamber of Commerce, is the equivalent of having more than 3 million full-time workers gathering and maintaining information demanded by Uncle Sam.

"Once again we are dealing with the reality that paperwork and other regulatory requirements dictated by the federal government place an enormous and costly burden on our nation's businesses," says Nancy Fulco, manager of regulatory affairs for the Chamber, which has made paperwork reduction a major priority.

With that in mind, lawmakers are beginning work on new legislation—the Paperwork Reduction Act of 1995.

In the House, paperwork reduction provisions fall under Title V of H.R. 9, the Job Creation and Wage Enhancement Act—one of the major elements of the House Republicans' Contract With America—and are included in separate legislation (H.R. 830) sponsored by Reps. William F. Clinger Jr., R-Pa., Norman Sisisky, D-Va., and David M. McIntosh, R-Ind.

The measures would amend the 1980 law to require agencies to review their paperwork requirements and ensure that they impose the least possible burden on the public.

The Senate legislation is S. 244, introduced by Sens. William V. Roth Jr., R-Del., chairman of the Governmental Affairs Committee; Christopher S. "Kit" Bond, R-Mo., chairman of the Small Business Committee; Sam Nunn, D-Ga.; and Dale Bumpers, D-Ark. The bill is identical to the legislation that passed the Senate last year and is now ready for a vote of the full Senate. (See the related story on Page 12A.)

The House and Senate measures would:

- Reauthorize the Paperwork Reduction Act for five years.
- Mandate a reduction in paperwork required by the government. The House bill would require a 10 percent reduction; the Senate would require a 5 percent reduction.
- Strengthen the federal Office of Information and Regulatory Affairs' ability to ensure that federal agencies comply with the paperwork statute.
- Require agencies to substantiate their estimates of the paperwork burden on the public.
- Reverse a 1990 U.S. Supreme Court ruling that the Office of Information and Regulatory Affairs had authority only to control agency paperwork requests for the disclosure of information to the federal government, not to third parties such as local police or fire departments.

*Contact your senators and representative and urge support for paperwork reduction legislation. Call (202) 225-3121. For more information on paperwork reduction, call Nancy Fulco or Ann McCulloch at (202) 463-5517.*

■ Policy

# Welfare Debate Taking Shape

## Business Coalition To Provide Input

The U.S. Chamber of Commerce has formed a coalition of businesses and associations to provide input to federal lawmakers considering reform of the nation's welfare system.

Formation of the coalition is part of the Chamber's response to strong interest among its members in welfare reform and to welfare-reform guidelines approved by the organization's board of directors in November.

Welfare reform was among the top concerns of respondents in a fall survey of U.S. Chamber members that was used in formulating the organization's 1995 National Business Agenda.

The Chamber board adopted as policy nine principles to guide the organization's efforts toward restructuring the welfare system. The principles are:

■ Welfare must become a transitional system leading to work. Because people leaving the system will be expected to work in the public or private sector, business must be involved in the design, development, operation, and evaluation of the new system.

■ The new system should provide job-placement services, as well as education and training, to help welfare recipients find jobs.

■ Education and training should include teaching the importance of working with others, reporting to work on time, thinking analytically and independently, and developing a positive attitude toward work.

■ Education and training should be based on and incorporate world-class academic and occupational skills standards.

■ Welfare recipients must be drug-free as a condition of employment and as a condition for receiving federal benefits, including welfare payments.

■ A limit should be placed on the amount of time an individual may receive welfare benefits.

■ Employees of local welfare centers must be trained to operate in the new system.

■ The new system must not impose any new federal mandates or regulatory burdens on employers. It must not be financed through new taxes or increases in any current taxes on business.

■ In developing a new system, reforms that have been implemented by the states should be examined.

Rep. E. Clay Shaw Jr., R-Fla., outlines the GOP's proposal for welfare reform at a press conference at the Chamber. At left is Jeffrey Joseph, the Chamber's vice president for domestic policy, who noted the issue's importance to business.

The Chamber testified on welfare reform Feb. 6 before a subcommittee of the House Economic and Educational Opportunities Committee (formerly the Education and Labor Committee).

Wayne Rowley, director of human-resource development for the Metropolitan Tulsa (Okla.) Chamber of Commerce, who testified on behalf of the U.S. Chamber, told the subcommittee about successful welfare-to-work programs in the Tulsa area. Rowley said that the training and career-development system in Tulsa is successful because there is a coordinated approach to the various programs, the system is employer-driven, and it relies on local leadership.

The Chamber also issued a white paper on federal laws that act as disincentives to private employers to hire welfare recipients.

*To join the Chamber's welfare coalition, call the organization's Jill Scheldrup at (202) 463-5525.*

## GOP Announces Plan At Chamber

House Republicans chose the U.S. Chamber of Commerce as the site for unveiling their proposal for welfare reform.

Rep. E. Clay Shaw Jr., R-Fla., the House Republicans' pointman on welfare reform, outlined the details of the plan in a Feb. 9 address to business leaders and the media at the Chamber.

"I am here at the Chamber because if we are to fix welfare, we must realize that every American, rich or poor, has a stake in this debate," said Shaw. "The Chamber of Commerce does recognize that. [It has] been meeting regularly to come up with solutions to the welfare problem. I salute your efforts and thank you for your ideas."

Shaw is chairman of the House Ways and Means Subcommittee on Human Resources, which was to begin consideration of welfare-reform legislation in mid-February.

Shaw's measure, broadly outlined in the House Republicans' Contract With America, is based on three principles. It would:

■ Require able-bodied people on welfare to find work.

■ Require personal responsibility by cutting benefits to unmarried women who have children while on welfare, or to those who abuse drugs or alcohol.

■ Give states, through federal block grants, more control over how welfare funds are spent.

In the Senate, a bill sponsored by Sen. Nancy Landon Kassebaum, R-Kan., chairman of the Labor and Human Resources Committee, would turn over to the states several federal welfare programs, including food stamps. In exchange, the states would give control of Medicaid, the health-care program for the poor, to the federal government.

The Clinton administration has also made welfare reform a top priority. However, a bill had yet to be introduced in either house of Congress on behalf of the administration at press time. Chamber officials met with Health and Human Services Secretary Donna E. Shalala early in the year to outline the organization's concerns on welfare reform.

■ Regulation

# Paper Limits Pushed

William M. Koeblitz, chairman of the U.S. Chamber's Regulatory Affairs Committee, testifies in support of reauthorizing and strengthening the Paperwork Reduction Act.

Legislation to limit government-required paperwork—one of the top priorities of the U.S. Chamber of Commerce—appears headed for passage in the House and Senate.

Bills pending in both houses would reauthorize and strengthen the Paperwork Reduction Act, which was enacted in 1980 but allowed to expire in 1989.

The Senate Governmental Affairs Committee approved a bill sponsored by the committee's chairman, Sen. William V. Roth Jr., R-Del., and Sen. Sam Nunn, D-Ga., which could be voted on soon by the full Senate.

In the House, a paperwork-reduction measure, introduced by Reps. Bill Clinger, R-Pa., Norman Sisisky, D-Va., and David M. McIntosh, R-Ind., was expected to reach the floor for a vote in late February. Clinger is chairman of the Government Reform and Oversight Committee, which handled the bill.

Passage of a paperwork-reduction measure was included in the House Republicans' Contract With America, and House GOP leaders pledged to vote on the 10-point contract within the first 100 days of the 104th Congress, which convened Jan. 4.

The Paperwork Reduction Act established the Office of Information and Regulatory Affairs (OIRA) within the White House's Office of Management and Budget (OMB). Although the law expired, OIRA has continued to operate under OMB's budget.

The office's mission is to review and approve or deny agencies' paperwork and regulatory requests. It is also charged with determining the costs and benefits of federal paperwork and regulations and their likely impact on small firms.

In its continuing push for reauthorization of the law, the Chamber testified most recently before the House Small Business Committee. It urged the panel to support the paperwork-reduction provision of H.R. 9—the Job Creation and Wage Enhancement Act of the Contract With America.

"The cumulative cost impact of paperwork and regulatory burdens has become so severe—particularly for small businesses—that businesses can no longer continue to incur these burdens if they are to remain economically viable," William M. Koeblitz told the small-business panel. Koeblitz, president and chief executive officer of MED Center Inc. of Cleveland, is a member of the Chamber's board of directors and is chairman of its Regulatory Affairs Committee.

*Call your senators and representative immediately at (202) 225-3121, and urge them to support legislation to reauthorize and strengthen the Paperwork Reduction Act.*

■ Workplace

# Bills To Allow Work Teams Supported

The U.S. Chamber of Commerce is strongly supporting legislation to allow companies to form cooperative employer-employee work teams.

The organization is helping to lead a coalition of business groups working for passage of bills introduced in the Senate by Sen. Nancy Landon Kassebaum, R-Kan., and in the House by Rep. Steve Gunderson, R-Wis., that would allow such teams.

Rep. Gunderson, R-Wis., talks with a coalition at the Chamber.

The bills would amend the 1935 National Labor Relations Act and reverse two National Labor Relations Board (NLRB) decisions.

The NLRB decisions held that employer-employee committees or employee-involvement programs violate the federal labor law's prohibition against "employer-dominated" labor organizations. The 1935 labor-law provision dealing with elections of unions and collective bargaining also restricted employee-involvement programs. The National Labor Relations Act classified as unfair any labor practice that leads an employer "to dominate or interfere with the formation or administration of any labor organization or contribute financial or other support to it."

It broadly defined a labor organization as "any organization of any kind, or any agency or employee representative committee or plan, in which employees participate and which exists for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work."

Under the law, discussions between workers and management of workplace issues may take place only through collective-bargaining arrangements. Because most nonunion companies do not have such arrangements, employer-employee work teams would likely be deemed illegal.

The proposed TEAM Act—Teamwork for Employees and Management—sponsored by Kassebaum, chairman of the Senate Labor and Human Resources Committee, and Gunderson, would clarify that such cooperative programs in the workplace are legal.

The House Economic and Educational Opportunities Committee (formerly Education and Labor), on which Gunderson serves, and the Senate panel that Kassebaum chairs were expected to approve their measures in late February.

*Write your senators and representative, and urge them to support S. 295 and H.R. 743, which would allow formation of employer-employee work teams. The addresses are: U.S. Senate, Washington, D.C. 20510; U.S. House of Representatives, Washington, D.C. 20515.*

# What Will You Do When Your Personal Assets Are Seized to Satisfy A Judgment Against Your Corporation?

All your many tax benefits of owning a corporation could be wiped out overnight. How? The I.R.S. could visit you and claim you have not kept proper corporate minutes. You could lose the very tax benefits to which the law entitles you.

Here are some recent "horror stories" direct from actual court cases:

Joseph P. obtained a loan from his corporation without the proper loan documents and corporate minutes. As a result, the court required him to pay additional taxes of $27,111.60. He narrowly escaped a penalty of $13,555.80.

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Keeping records has always been a bother, and an expensive one, especially for small companies. Most entrepreneurs do not like to spend time keeping records. Probably because no one ever became rich by keeping records. And in a small, one-person business, it seems downright silly to keep records of stockholder meetings and board of directors meetings...keeping minutes...taking votes...adopting resolutions...isn't it all just a waste of time?

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You can hire a lawyer, like the big companies do, and pay $100 or more just to prepare one form. But you may need, at minimum, a dozen or more documents to keep your corporation alive and functioning for just one year. This type of work is the bread and butter for many corporation lawyers. Most of the work can be done by their secretaries, yet they will charge you enormous sums because they know how important these forms are.

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■ Telecommunications

# Survey Bolsters Congressional Efforts

The needs of business users will be taken into account by the two congressional committees rewriting America's 61-year-old communications law, thanks to the U.S. Chamber of Commerce.

Findings of a nationwide Chamber survey of 6,500 members of all sizes from a wide spectrum of industries were presented Jan. 17 to the chairmen of the House and Senate Commerce committees—Rep. Thomas J. Bliley Jr., R-Va., and Sen. Larry Pressler, R-S.D., respectively.

The survey was developed by the Chamber's Telecommunications Infrastructure Task Force, composed of more than 110 users and providers of telecommunications services. The results revealed that current and potential business users of the so-called information superhighway want access to multiple providers of services and related hardware and software products.

There is also overwhelming support for private-sector development of standards for accessing communications networks and for network customer equipment, the results showed.

Chamber members who responded to the survey strongly believed the federal government should not require networks to contain electronic gateways through which law enforcement authorities could enter.

They also said that there is a pressing need for expansion of laws protecting intellectual property and that legislation should define what information can be lawfully downloaded from networks. Legislation should also establish restrictions and fees, survey respondents said.

At a Chamber press conference, Sen. Larry Pressler, R-S.D., left, and Rep. Thomas J. Bliley Jr., R-Va., right, thanked the business federation for its survey of telecommunications users and providers. The lawmakers said the poll results will be used in writing telecommunications legislation.

"Business users have a significant stake in ensuring that the congressional debate on the national information infrastructure evolves in a manner that is supportive of their interests," said Jody Olmer, the Chamber's director and special counsel for domestic policy, at an event at Chamber headquarters where the survey results were presented.

"The results of this survey will be most helpful to the Commerce Committee as it drafts telecommunications reform legislation," said Bliley. Like the Chamber members surveyed, "I too believe that it is competition, and not regulation, that will bring new and innovative information and entertainment services to Americans at reasonable cost," he said.

Added Pressler: "Because America's telecommunications network will be financed and built by the private sector, the demands and views of the business-user community [represent] an extremely important perspective that deserves [Congress'] careful attention." These views have been underrepresented in Congress, "but that changed today," he said in response to the survey.

Bliley's and Pressler's committees are expected to begin writing telecommunications deregulation bills shortly.

■ Taxes

# Health-Care Break Urged

The U.S. Chamber of Commerce is urging Congress to restore and expand the 25 percent tax deduction for health-care expenses of the self-employed and unincorporated businesses. The provision expired at the end of 1993.

The Chamber testified on the issue before the House Small Business Committee on Jan. 20 and the Ways and Means Subcommittee on Health on Jan. 27.

Lisa Sprague, manager of employee-benefits policy for the Chamber, urged the panels "to permit 100 percent deduction of health-insurance costs. Sound tax policy dictates full deductibility of premium or self-insurance costs as ordinary and necessary business expenses."

In addition, she noted, "there is no valid tax-policy reason for treating the smallest businesses any differently" than large companies. Incorporated businesses may deduct 100 percent of their health-insurance costs as business expenses.

The Ways and Means panel approved a bill to reinstate the 25 percent tax provision on Feb. 8.

The Ways and Means measure, sponsored by committee Chairman Bill Archer, R-Texas, would make the 25 percent deduction permanent, and retroactive for 1994. Since the deduction was enacted in 1986, it had been renewed annually for one year only. But last year, Congress declined to renew it.

Legislation to restore the 25 percent deduction was introduced in the Senate in late January by Sens. Charles E. Grassley, R-Iowa, William V. Roth Jr., R-Del., and David Pryor, D-Ark.

A bill is expected to be approved by Congress before federal taxes for 1994 are due.

Lisa Sprague, manager of employee-benefits policy for the U.S. Chamber, urges a House Ways and Means subcommittee to reinstate the health-care tax deduction for small firms.

*Call your representative and senators immediately. Urge them to approve legislation to restore permanently the 25 percent tax deduction for health-insurance expenses. Also, urge them to increase the deduction to 100 percent. Dial the Capitol Hill switchboard at (202) 225-3121.*

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# U.S. Chamber Member Services

**The U.S. Chamber of Commerce offers numerous services and publications to its members. Here is a partial listing of these benefits.**

## Management Seminars

James Belasco

"Creating Value For Your Customers and Employees" will be the topic of a satellite seminar sponsored by the U.S. Chamber's Quality Learning Services (QLS) Division on March 7 from 1 to 3 p.m. Eastern time.

This first seminar in QLS's spring series will feature James Belasco, professor of management at San Diego State University and co-author of the recently published *Flight of the Buffalo: Soaring to Excellence, Learning to Let Employees Lead.*

For more information, including prices for downlinks and taping rights, call 1-800-835-4730 or (202) 463-5940.

Other upcoming seminars, with the date, topic, and presenter of each, are:

**March 21**—"Bringing The Customer In," Peter Scholtes, author and management consultant.

**April 4**—"The Great Game of Business—Unlocking the Power and Profitability of Open-Book Management," Jack Stack, author and chief executive officer of Springfield (Mo.) ReManufacturing Corp.

**April 11**—"Workplace Communications—The Gaps and Traps," management consultants Judith Briles, Rick Kirschner, and Rick Brinkman.

**April 18**—"The Seven Habits—Becoming a Transition Person," R. Craig Pace, Covey Leadership Center.

**May 2**—"The Leader In You: Leadership Strategies for the '90s," Stuart Levine, chief executive officer of Dale Carnegie & Associates Inc.

**May 23**—"Re-engineering Management: A Mandate for New Leadership," James Champy, chairman of CSC Consulting.

## How They Voted

A new edition of the Chamber's *How They Voted* guide features senators' and representatives' votes on important issues of interest to business during the second session of the 103rd Congress.

Included are descriptions of the selected issues involved in the votes that were used by the Chamber in determining the ratings, plus the business federation's position on each of those issues. Two sets of ratings are included—one based on votes cast in 1994 and one on each senator's and representative's cumulative voting patterns during his or her congressional tenure.

To order *How They Voted*, call 1-800-638-6582. In Maryland, call 1-800-352-1450. Request publication No. 0425. Copies are $7.50 for Chamber members and $9 for nonmembers.

## Keeping Tabs On Congress


The Chamber's *1995 Congressional Handbook*, now available, lists senators and representatives in the 104th Congress. It includes lawmakers' photographs, telephone and room numbers, committee and subcommittee assignments, and key staff members.

Also included are addresses and telephone numbers of the lawmakers' district offices as well as Chamber ratings of lawmakers' votes on key business-related issues during their tenures in Congress. Legislators are listed alphabetically, by state, and separately by committee.

A directory of addresses and telephone numbers for the White House, Cabinet-level agencies, and state governors also is included.

The handbook costs $6.50 for U.S. Chamber members and $10 for nonmembers. Bulk-order discounts are available. To order, call 1-800-638-6582. In Maryland, call 1-800-352-1450. Request publication No. 0423.

## Association Development

The U.S. Chamber's Institutes for Organization Management, a week-long professional-development program for association and local and state chamber executives, will begin its 1995 schedule in June.

The program, which helps strengthen leadership, management, interpersonal, and communications skills, is set for: June 11-16, University of Notre Dame, in South Bend, Ind.; June 18-23, University of Georgia, in Athens, Ga.; June 25-30, Southern Methodist University, in Dallas; July 9-14, University of California at Los Angeles (UCLA); July 16-21, University of Colorado, in Boulder, Colo.; Aug. 6-11, University of Delaware, in Newark, Del.; Aug. 13-18, College of Charleston, in Charleston, S.C. (for first-time participants); and Jan. 21-26, 1996, University of Oklahoma, in Norman, Okla.

For enrollment information, call (202) 463-5570.

## Education Publications

The Chamber's Center for Workforce Preparation has three publications designed to help businesses, communities, and parents prepare today's students for tomorrow's jobs.

*New Century Workers: Effective School-to-Work Transition Programs* features innovative school-to-work transition programs designed and implemented by local education and business leaders throughout the country.

*On Target: Effective Parent Involvement Programs* provides parents and business and community leaders information on successful programs that have been used to increase parental involvement in children's education.

*Year 4: Community Efforts to Achieve the National Education Goals* highlights 20 programs that exemplify what can be achieved when a community unites behind a common vision.

To order any or all three publications, call the Center for Workforce Preparation at (202) 463-5525.

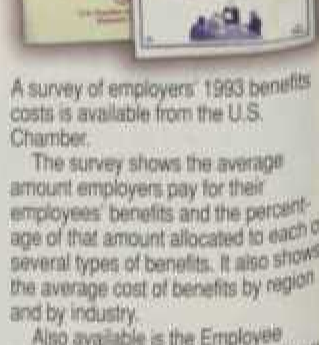

## State Chamber Directory

A listing of officers and staff specialists of state chambers of commerce and business and industry associations is available from the Chamber's Office of Chamber of Commerce Relations.

The *'95 Staff Directory* lists the organizations' addresses and telephone and fax numbers. The publication also includes a listing, with telephone numbers, of the key management staff members of the U.S. Chamber and its membership and marketing centers.

To order the directory, which costs $10 per copy (quantity discounts are available), call (202) 463-5580, or send a check payable to the U.S. Chamber to: U.S. Chamber of Commerce, Publications Fulfillment, 1615 H Street, N.W., Washington, D.C. 20062-2000. Ask for publication No. 0431.

## New Survey On Employee Benefits




A survey of employers' 1993 benefits costs is available from the U.S. Chamber.

The survey shows the average amount employers pay for their employees' benefits and the percentage of that amount allocated to each of several types of benefits. It also shows the average cost of benefits by region and by industry.

Also available is the Employee Benefits Analyzer, a computer software program. The software allows companies to compare their benefits with those of firms in the same industry, geographic region, and size category. It runs on IBM and IBM-compatible computers and is available on 5¼- or 3½-inch disks.

The software costs $95. The book *Employee Benefits, 1994 Edition*, is $29. Both products combined are $115.

To order either or both, call 1-800-638-6582. In Maryland, call 1-800-352-1450.